

# **A Regionally Integrated Pacific:** *The Challenge of the Cotonou Agreement to Pacific Regionalism*

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**National Centre for Research on Europe  
University of Canterbury**

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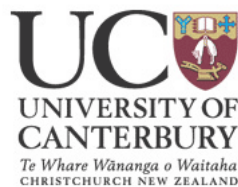
**A Regionally Integrated Pacific:  
The Challenge of the  
Cotonou Agreement to  
Pacific Regionalism**

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A thesis  
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of  
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by  
Steven B. Thomas

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National Centre for Research on Europe  
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## **Abstract**

The European Union (EU) has comparative advantage in regional integration. Moreover, regionalism is a growing phenomenon, as both the growing number of regional trade agreements and literature on “new regionalism” indicate. In this context, the EU has incorporated regional integration into European development policy as a strategy to help integrate the African, Caribbean and Pacific (ACP) states into the global economy, with the negotiation of region-to-region reciprocal free trade agreements, called Economic Partnership Agreements (EPA). This thesis examines the extent to which the Pacific may constitute a region, for the purposes of the Cotonou Agreement, along cultural, political and economic dimensions of regional cooperation. This is in order to measure the potential for regional integration in the Pacific, as well as to test the applicability of the EU’s regional template of development in this context.

A theoretical framework is developed, based on the political economy of regional cooperation among developing states, in order to apply a series of propositions to the test the integrative potential of the Pacific region. The key finding is that regionalism in the Pacific is easily politicised. Anthropological evidence and economic analysis also confirm the informal nature of regional cooperation in the Pacific works against global imperatives for deeper regional integration, as Pacific islanders have generally not subscribed to a common identity, and the welfare benefits from regional free trade are shown to be minimal. Consequently, the Pacific accepts the EPA platform in order to maintain the development partnership with the EU, rather than because regional free trade is the most desired vehicle for development in the region. A trade agreement will therefore be concluded with the Pacific ACP states, but its form and timing remain the key issues for clarification.

## **List of Terms and Abbreviations**

ACP	African, Caribbean and Pacific states
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
AU	African Union
CAP	Common Agricultural Policy of the European Union
CARICOM	The Caribbean Community
CEG	Capabilities-Expectations Gap
CEMAC	Economic and Monetary Community of Central Africa
CET	Common External Tariff
CFSP	Common Foreign and Security Policy
COMESA	Common Market for Eastern and Southern Africa
Cotonou or CPA	Cotonou Partnership Agreement
CRNM	Caribbean Regional Negotiating Mechanism
CROP	Council of Regional Organisations in the Pacific (formerly SPOCC)
CU	Customs Union
DAC	Development Aid Committee (of the OECD)
DC	Developed Country
DDA	Doha Development Agenda
DWFN	Distant Water Fishing Nation
EBA	Everything But Arms initiative
EC	European Community
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDF	European Development Fund
EEC	European Economic Community (or Communities)
EEZ	Exclusive Economic Zone
EPA	Economic Partnership Agreement
EU	European Union
FFA	Forum Fisheries Agency

FIC	Forum Island Countries
Forum	South Pacific Forum or Pacific Islands Forum
FSM	Federated States of Micronesia
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalised System of Preferences
ICT	Information Communications and Technology
LLDC	Least Less Developed Country
LDC	Less Developed Country
MDC	More Developed Country
Mercosur	The Southern American Common Market
MIRAB	Migration, Remittances, Aid and Bureaucracy
MFA	Multi-Fibre Arrangement
MFN	Most-Favoured Nation principle
MRB	Mandated Regional Body
MSG	Melanesian Spearhead Group
NAFTA	North American Free Trade Association
NCDS	National Centre for Development Studies (at Australia National University)
NIP	National Indicative Programme
NTB	Non-tariff barriers
NTFC	National Trade Facilitation Council
North	The Northern hemisphere, or the developed world
OCT	Overseas Countries and Territories
OCO	Oceania Customs Organisation
OECD	Organisation for Economic Co-operation and Development
PACER	Pacific Agreement on Closer Economic Relations
PACP	Pacific ACP states
PCP	post-Cotonou Agreement Process
PIASA	Pacific Islands Air Services Agreement
PICTA	Pacific Island Countries Trade Agreement

PIC	Pacific Island Countries
PIDP	Pacific Islands Development Programme
PIF	Pacific Islands Forum (South Pacific Forum, prior to 2000)
PIPA	Pacific Island Producers' Association
PNG	Papua New Guinea
PTA	Preferential Trade Agreement
QR	Quantitative Restrictions
RAO	Regional Authorising Officer (ACP sub regions)
REIP	Regional Economic Integration Programme
RIA	Regional Integration Agreement
RIP	Regional Indicative Programme
RMI	Republic of Marshall Islands
ROW	Rest of the World
RSP	Regional Strategy Paper
RTA	Regional Trade Agreement
RTFF	Regional Trade Facilitation Forum
RTFP	Regional Trade Facilitation Programme
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDT	Special and Differential Treatment
SIDS	Small Island Developing States
SIS	Small Islands States summit (sub conference of the Pacific Islands Forum)
South	The Southern hemisphere, or the developing world
South-South	Regional economic integration among developing world countries
South-South-North	A trade relationship formed between the North and a South-South integration scheme
SOPAC	South Pacific Applied Geo-science Commission
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPATC	South Pacific Air Transport Council
SPHS	South Pacific Health Service

SPC	South Pacific Commission (1947) or The Pacific Community (1998)
SPF	South Pacific Forum (1971-2000)
SPOCC	South Pacific Organisations Coordinating Committee (1973-1988; now CROP)
SPEC	South Pacific Bureau for Economic Cooperation (1973-1988; now the Forum Secretariat)
SPREP	South Pacific Regional Environment Programme
SPTO	South Pacific Tourism Organisation (1999)
STABEX	System for the Stabilisation of Export Earnings
SYSMIN	System for the Promotion of Mineral Production and Exports (under Lomé)
TCD	Trade Capacity Development
TCSP	Tourism Council of the South Pacific
TEC	Treaty on European Community (Treaty of Rome, 1957)
TEU	Treaty on European Union (Maastricht Treaty, 1993)
UN	United Nations
UNCED	UN Conference on the Environment and Development
UNCLOS	UN Convention on the Law of the Sea
UNCTAD	United Nations Conference on Trade and Development
UR	Uruguay Round
US	United States
USA	United States of America
USP	University of the South Pacific
WTO	World Trade Organisation



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## Introduction:

### European Union Development Policy and a Template of Regional Order

#### I. PRELIMINARIES: THE EU CONTEXT OF DEVELOPMENT POLICY

For the European Union (EU), the early years of the twenty-first century are ones of challenge and immense change. The Constitutional Convention concluded its work in July 2003, out of which a consensus has emerged to give legal character to the European Communities and to clarify many of the inter-institutional complexities of the EU. However, because continuing problems with Europe's Common Foreign and Security Policy (CFSP), the EU's international identity is still less developed. May 2004 saw the acceptance into the EU of ten new member states from Eastern Europe and the Mediterranean. Finally, the EU will continue to be subject to broader changes in the conduct of global trade relations, as the Doha round of the World Trade Organisation (WTO) includes a focus on meeting the needs of developing countries.<sup>1</sup> Although these are problems that the EU will have to work through, because the Community is grappling with reform of regional governance, rather than disintegrating, shows the EU has matured as a form of regional integration.

With the rise of the EU, regional integration is a topic itself that has attracted wide attention, in the literature of international relations and international political economy. Scholars have investigated the appearance and consolidation of economic integration schemes in various regions of the world, including the North American Free Trade Agreement (NAFTA), Mercosur in South America, or the Association of South East Asian Nations (ASEAN).<sup>2</sup> Of 250 RTAs notified to the GATT and the World Trade Organisation (WTO) throughout their combined history; 130 of these were registered after January 1995.<sup>3</sup> What is interesting about these integration schemes are how they

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<sup>1</sup> James Mackie, (2003), Challenges for 2003: The Changing Framework of EU External Relations and its Implications for the ACP, (ECDPM InfoBrief 6), European Centre for Development Policy Management (ECDPM), Maastricht, accessed at: <http://www.ecdpm.org/>, 22 August 2003.

<sup>2</sup> Ben Rosamond, (2000), Theories of European Integration, St. Martin's Press, New York, p. 179.

<sup>3</sup> World Trade Organisation, (2004), Regional Trade Agreements: The Mandate, World Trade Organisation, Geneva, accessed at: [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm), 20 May 2004.

challenge state sovereignty, and whether the regional trade agreements that exist among them are stepping stones or stumbling blocks towards global free trade, under the WTO.

Another equally relevant challenge to how Europe engages with the rest of the world is the relationship the EU has with the developing world, through European development policy.<sup>4</sup> For over forty years, long before the pillared structure of the Maastricht Treaty instituted external action as a separate Community competency, the EU actively shaped the fortunes of several African and later the Caribbean and Pacific states with special preferential trade arrangements granted under the Yaoundé and subsequently the Lomé Conventions. More recently, the Lomé partners were subjected to the wider “objectives and priorities of the Community’s development policy” (Article 4, Treaty on European Union, 1992) that address issues beyond trade. This translates into observance of the three essential provisions for development, contained in Article 130u of the Treaty on European Union. Paraphrased, these are:

- The sustainable economic and social development of developing countries;
- The smooth and gradual integration of those countries into the world economy;
- and
- An ambition to eradicate world poverty.

These objectives became a mantra for EU development cooperation, as the internal integration process pressured the EU to adopt a consistent approach to external relations. The TEU development provisions later influenced the direction of the ACP partnership in the late 1990s, when development policy underwent a fundamental overhaul to produce a renegotiated partnership agreement between the EU and the ACP: the Cotonou Partnership Agreement signed in June 2000. Like its predecessors, the provisions of the Cotonou Agreement have the same potential to alter the complexion of development among the members of the African, Caribbean and Pacific states (ACP).

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<sup>4</sup> Christopher Hill, (1993), 'The Capability-Expectations Gap, or Conceptualising Europe's International Role', Journal of Common Market Studies, Vol. 31, No. 3, p. 314.

## II. REGIONAL INTEGRATION:

### A PRINCIPLE OF EU DEVELOPMENT POLICY

This thesis is concerned with the relationship between these two broad themes; the revival of regionalism and the reform of EU development policy. The significance of the Cotonou Agreement, besides reaffirming and bolstering the political, cultural and social dimensions of the partnership, introduces regional integration as a “key instrument” to incorporate the ACP states into the world economy, in terms of trade and private investment.<sup>5</sup> Regionalism is mentioned 83 times in the 100 articles of Cotonou, illustrating its importance as a principle of EU development policy.<sup>6</sup> The emphasis on regionalism is driven largely by the EU’s comparative advantage in integration, the consequence of Europe’s success so far in bringing about peace and prosperity through regionalism. By encouraging existing regional integration schemes and collective impulses within the ACP, the EU intends to help deliver sustainable economic development and to use regionalism as a platform upon which to build a mature trading relationship with the developing world. The Cotonou Agreement also lays the foundations for reciprocal free trade agreements to be concluded between the EU and the ACP, called Economic Partnership Agreements (EPAs), to coincide with the end of the WTO waiver on EU-ACP trade preferences at the end of 2007.

The EPAs are not intended to be mere FTAs, but will in time incorporate trade-related areas and trade support measures. EPAs, are envisaged to work along regional dimensions. The EPAs will subdivide the ACP into six regions; Central Africa, East Africa and the Indian Ocean, the South African Development Community, Western Africa, the Caribbean, and lastly the Pacific (Appendix Three). Instead of separate FTAs with each ACP state, each ACP region shall negotiate an EPA with the EU. EPAs will bring a novelty into the international trading system because instead of North-North, North-South or South-South agreements, regional EPAs will be South-South-North agreements. According to the Commission, in this way the EPAs will help achieve the three core objectives of EU development policy. Region-to-region partnership agreements will offer advantages in efficiency for the EU, as it is simpler for Brussels to

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<sup>5</sup> Commission of the European Communities, (2000), *The Cotonou Partnership Agreement*, *The Courier*, Special Issue, September 2000, European Community, Brussels, p. 6.

<sup>6</sup> Sanoussi Bilal, (2002), *The Future of ACP-EU Trade Relations: An Overview of the Forthcoming Negotiations*, February, Economic Centre for Development Policy Management, Maastricht, accessed at <http://www.ecdpm.org>, 18 March 2004, p. 33.

deal with a collective group of countries than to have to negotiate up to 79 bilateral agreements with the ACP states.

As well as this agenda, there is another pressing imperative; the reform of the trade aspect of the ACP partnership so that it is compliant with World Trade Organisation (WTO) rules on international trade. This is because it has become impossible to justify Preferential Trade Agreements (PTA) in goods under Article XXIV provisions of the GATT/WTO arrangements for trade between the developed and the developing world. Article XXIV states “substantially all trade” must be liberalised between members of developing and developed country trade agreements so that countries outside of a Regional Trade Agreements (RTA) are not privileged over others. Otherwise, the EU’s new trade development partnership will be in clear violation of the Most-Favoured Nation principle. If non-reciprocal trade preferences are replaced with region-to-region FTAs, the new trade regime will be compatible with WTO rules. RTAs among developing countries are permitted however as a preliminary deferential measure to allow time for developing states to liberalise amongst one another, as a stepping stone towards their full integration into the multilateral trade system. This approach allows the ACP states time to reduce tariff and trade barriers, so long as they begin liberalisation amongst themselves first.

One simple but remarkable observation that can be made about the trade dimension of the Cotonou Agreement is that it contains within it a particular variety of EU world order, where the EU has become an exporter of regional integration as a solution to underdevelopment. The post-Cotonou Agreement process (PCP) situates each ACP state in a particular region. Another observation is whether the EU model of development, through trade and regional integration, is based on the assumption that a model which was successful in Western Europe is transferable to a developing world context. Another observation is that the EU appears to have premised its development policy on a model of development through trade and regional integration that was successful in Western Europe. The question remains, however, to what extent this will work for developing countries.

### III. THE FOCUS – PACIFIC REGIONALISM

The Pacific region cover a vast space, including 13 time zones, 25,000 islands and has a combined Exclusive Economic Zone (EEZ) of over 20,000,000 square kilometres.<sup>7</sup> Hence, the intention of this thesis is to evaluate the extent to which the Pacific may be able to adopt the EPA model of regional integration. In other words, can the Pacific be considered an area capable of conducting regional economic integration, and therefore a degree of political integration as well? It is hypothesised that economic integration accentuates the political ramifications of cooperation in a context of development.

The Pacific is an interesting case to examine within the ACP group, firstly because in relation to the rest of the ACP, the Pacific ACP states have previously had an immature relationship with the EU.<sup>8</sup> The original eight PACP states became members of the partnership as a result of how the Community dealt with the incorporation of the developing states of the British Commonwealth into its development architecture, when Britain joined the EC. As such, they have mattered less to Europe than the African members of the ACP. The Cotonou Agreement has warmed the Pacific partnership, by welcoming in six new Pacific states, but they have had little or no prior dealings with Europe, as they were not European colonies. However, the trade volume between Europe and the Pacific is low.<sup>9</sup> While not having a colonial legacy is advantageous for the EU's perception in the Pacific, it does mean there are fewer links upon which to build a more region-to-region partnership.

Secondly, it is questionable whether Pacific islanders possess a common commitment to a regional identity, in a similar way to how Europe has developed a regional interest and consciousness. Throughout Pacific history, a long list of foreigners has defined the identity of Pacific islanders. The EU definition of the Pacific groups a cross-section of Pacific states together. To what extent, then, is there a common Pacific identity or

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<sup>7</sup> Commission of the European Communities, (2002), Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007, European Community, Brussels; Robert C. Kiste, (1994), *'Precolonial Times'*, in K. Howe, Robert C. Kiste, and Brij V. Lal (eds.), Tides of History. The Pacific Islands in the Twentieth Century, University of Hawaii Press, Honolulu, p. 3.

<sup>8</sup> Roman Grynberg, (2000), Asymmetric Reciprocity in the Post-Lomé Framework, Implications for Trade Relations in the Pacific, Pacific Islands Forum Secretariat, Suva, accessed at: [http://www.acp-eu-trade.org/biblio\\_pacific.php](http://www.acp-eu-trade.org/biblio_pacific.php), 14 July 2003.

<sup>9</sup> The Commission EPA impact report for the Pacific noted in 1998 that the Pacific only imported five per cent of EU imports and formed 19 per cent of EU imports Netherlands Economic Institute (NEI), (1998), Introducing Reciprocity into the Trade Relation between the EU and Pacific ACP Countries, Study undertaken by the Commission of the European Communities, Amsterdam.



definition of the Pacific among Pacific islanders? It is reasonable to hypothesise that how islanders define their identity will influence whether islanders can establish and cooperate on common regional interests. Thirdly, the Cotonou Agreement attempts to build upon local regional integration initiatives. Hence, it is necessary to investigate the prospects for political-institutional cooperation. What attempts have been made at regional integration in the Pacific and how have they been characterised? Are there any local engines of political and economic integration in the Pacific, or is it merely the role of exogenous forces in the Pacific that has kept regionalism on the agenda? Lastly, in relation to the model of free trade contained in the Cotonou Agreement, questions arise in relation to the economic viability of constructing a Pacific FTA. For instance, intra-regional trade in the Pacific is only two per cent of total trade in the region.<sup>10</sup> Although the PICs are committed to establishing their own FTA, under the Pacific Island Countries Trade Agreement (PICTA), ratified in April 2003 (Appendix Eight), the implications of the EPA negotiations for the pace and scope of liberalisation need to be investigated.

Before proceeding further, some general concepts concerned with gauging the potential for regional cooperation in the Pacific need further definition. The first is integration. Integration theory has suffered from a 'dependent variable problem'. This means what is it that is to be explained when we contemplate the processes of region-building. What does it mean to say that the Pacific is integrated, or is in the process of integrating? Is integration an outcome or a process?<sup>11</sup> This might mean establishing whether integration is an economic or a political phenomenon. Wallace's definition of integration is the creation and maintenance of intense and diversified patterns of interaction among previously autonomous units.<sup>12</sup> Wallace also highlights the difference between formal and informal integration, which underlines the importance of the relationship between political and economic integration. The former consists of outcomes (institutions, policies, legislation), as a consequence of deliberate political sanction, while the latter has consequences without formal authoritative intervention. Hence, the real issue at stake is one of political economy. For example, how do changes to capital mobility, trade production or tariffs influence the agenda of political actors, or vice-versa. This means

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<sup>10</sup> Roman Grynberg, and Onguglo Bonapas, (2002), A Development Agenda for the Economic Partnership Agreement between the EU and the Pacific ACP (PACP) A Concept Paper, EU-Least Developed Countries Network, accessed at <http://www.eu-ldc.org/downloads/PACP.doc>, April 2003.

<sup>11</sup> Rosamond, Theories of European Integration, pp. 11-14.

<sup>12</sup> Wallace, William (ed.), (1990), The Dynamics of European Integration, Pinter, London, p. 9.

that the definition of integration is fluid, depending on whether there is an ultimate end, which, as will be revealed, is perhaps difficult to define in the Pacific.

The concept of ‘development’ is another general concept used often in this thesis. It is not the purpose of this thesis to debate the definition of development. The definition used here refers to the kind of transformation which produces a modern industrial-consumer society, implying change across social, economic, political and cultural dimensions of society.<sup>13</sup> Thus, development, for the purposes of the post-Cotonou Agreement process, is concerned with the set of transformative practices that will achieve the TEU development objectives. These promise to reshape the nature of the state in each of the ACP countries, with the goal of improving the opportunities and choices for interaction, exchange and production among the various actors in civil society.<sup>14</sup>

#### **IV. A BRIEF NOTE ON METHODOLOGY**

The methodology used to investigate the answers to these questions is not unique, but intends to take some older approaches and apply them to a highly contemporary and topical case, where they have not been used before. In short the questions outlined above represent a nomothetic, macro-historical approach to studying the phenomenon of regional integration in the Pacific that intends to test and develop the body of literature on the political economy of regional integration in a context of underdevelopment.

The literature on political economy, which, broadly defined, is the study of the interaction between the state and economic interests, was popular in the late 1960s and 1970s for interpreting the limitations of economic integration schemes among developing countries, which had tried to emulate the model of European integration embodied in the common market. When integration efforts in general stalled in the late 1970s and for most of the 1980s, this literature fell out of interest. However, with the revival of regionalism in the 1990s, it is argued here that this literature can make a valuable contribution to understanding the EU model of South-South-North integration, contained in the EPAs. This is because EPAs encourage economic integration between developing countries,

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<sup>13</sup> Björn Hettne, (1995), Development Theory and the Three Worlds, Second Edition, Longman Scientific and Technical, New York, pp. 15-16.

which may be considered similar to the first attempts by developing countries to engage in regional integration. Thus, the insights of the political economy literature in this area can be analysed in order to develop propositions which can be applied to the case of Pacific regionalism, in order to evaluate the potential for political and economic integration in the region. Hence, a political economy approach to regional integration will form the theoretical core of this study.

This research will also utilise secondary literature from anthropological studies of the Pacific region to capture the dynamics of Pacific identity. To address the questions on economic cooperation, elements of the political economy framework will be developed further by employing insights from theories of economic integration to analyse the issues surrounding construction of an FTA in the Pacific. In order to include a fresh, current perspective on EU-Pacific relations, and the latest trends in Pacific regionalism, it has been necessary to consult and incorporate an extensive range of primary sources, in the form of press statements, news sources, official documentation, and briefing papers from non-governmental organisations, the European Commission and the Pacific Islands Forum Secretariat. Lastly, to gain an accurate sense of the tone and current salient issues in Pacific regional politics, a visit was made to the Pacific Islands Forum meeting in Auckland, New Zealand, in August 2003, where unstructured interviews and participant observation was carried out to provide data from an elite perspective.

However, studying the Pacific can be frustrating because of the dearth of accurate data which is available on the profile or economic performance of PICs. This is partly a reflection of the limited resources PICs have to collect and manage such data, but also the low value which many island leaders place on the collection of national statistics. The National Centre for Development Studies at Australia National University, Canberra, initiated a Pacific data bank in the 1970s to regularly report indicators in the Centre's Pacific Economic Bulletin. When responsibility was shifted to the Pacific Community Secretariat in Noumea, the work collapsed in 1994 because the SPC did not possess sufficient statistical and economic expertise to carry out such specialised work to assist Pacific island statistical offices to produce comprehensive data. Hughes in particular noted that data for Pacific economic and social indicators was either not available or

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<sup>14</sup> Cf. Gilbert Rist, (2002), *The History of Development: from Western Origins to Global Faith*, Zed Books, New York, pp. 8-18.

varied by more than 25 per cent among sources.<sup>15</sup> This indicates an area in which capacity needs to be improved, to enhance the quality of information across the region. However, it also means that often the assessments or assumptions made might be limited in certain cases because of a lack of data upon which to make precise conclusions. Nevertheless, enough data is available upon which to make reasonable generalisations.<sup>16</sup>

## V. THE WAY AHEAD

In relation to the topics and questions outlined above, the chapters of this thesis will deal with the answers to them two parts. The first section examines the ideas and concepts behind regional integration and development, to establish how regionalism may be assessed in the Pacific. Chapter One sets the EU context for region-to-region trade relations with the ACP, examining the sources of the regional template in EU development policy, and charts the rationale behind its adoption. Chapter Two proceeds to review the literature on regionalism, and to construct a political economy framework of analysis to apply to regional cooperation in the developing world. Chapter Three begins to apply the concepts developed by moving the focus specifically to the Pacific. Its intention is to investigate how the Pacific has been defined as a region by islanders and foreigners, to establish how deep the linkages of commonality extend in the region. Chapter Four explores the ways in which the technical capacity for regional cooperation and trade might be measured, to both highlight problems which need to be addressed and how to determine if progress to improve regional integration has been made. Chapter Five investigates the nature and state of regional cooperation in the Pacific, applying the political economy framework developed in Chapter Two. Chapter Six teases out the prospects for free trade in the Pacific, and the prospects for the application of the EPA framework. The conclusions sketch out some observations for the future of the regional

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<sup>15</sup> More specifically, Hughes notes that the longest and most consistent data series on key Pacific indicators are those compiled by the World Bank's Development Data Group in Washington from national statistical offices in the Pacific. The statistics included in Appendix Four, for example, are based on these data sets. The Asia Development Bank and the CIA Factbook also give an array of incomplete and varying figures, but they show the same general trends. Hughes suggests that inaccuracies are because data is often tampered with for political purposes by island elites. Helen Hughes, (2003), *Aid Has Failed the Pacific*, Issue Analysis, No. 33, 7 May 2003, Centre for Independent Studies, Sydney, pp. 3-4. Cf. Chand, Satish, (2003), 'Economic Trends in the Pacific Island Countries', *The Pacific Economic Bulletin*, Vol. 18, No. 1, pp. 1-2.

<sup>16</sup> Robert Scollay, (2001), *Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands' Proposed Free Trade Agreement*, *Policy Issues in International Trade and Commodities Study Series*, No. 10, United Nations Conference on Trade and Development (UNCTAD), New York and Geneva.

integration under the post-Cotonou Agreement Process (PCP) in the Pacific, as the EPA negotiations play themselves out. While this might be one of the first words on the nature of the prospects for the EPA framework in the context of Pacific regionalism, it will by no means be the last. What is hoped is that it will represent a unique juxtaposition of research on the nature of Pacific island regional cooperation and the EU model of integration and development envisaged for the Pacific ACP states.

**Part One:**

**Evaluating Regionalism in the Developing World:  
Theory and Concepts**

## Chapter One

# **The Development of Development Policy: From European Associationism to Cotonou**

### **I. INTRODUCTION**

The principal focus of this thesis is to attempt a preliminary evaluation of the reinvigoration of regionalism in European Union (EU) development policy, under the Cotonou Agreement, with respect to the regional processes at work in the Pacific. Although regionalism is only one element of EU development policy reform, it is also hoped to critically view these reforms in a developing world context through a framework of political economy. These concepts and arguments will be developed in later chapters. The aim of this initial chapter, however, is to explain how the EU has come to adopt a differentiated regional free trade approach to ACP relations under the Cotonou Agreement. Furthermore, it will be shown that the context in which EU development policy has developed engenders questions of political economy, since the relationship that the EU has with the developing world has grown out of historico-political considerations, and not necessarily from a logical strategy. Thus, this foray into the past, while not intending to produce any new perspective on the history of EU-developing world relations, will help to illustrate how regional cooperation in the developing world is subject to both political and economic variables, as well as to explain various institutions and issues driving EU-ACP relations. It will also develop the argument that the EU manages its global affairs with a regional template of world order. In essence, the EU context in which to locate the post-Cotonou process (PCP) will be defined, as well as to introduce some of the problems of building regional free trade areas (FTA) in the developing world, which in turn highlights some of the tensions faced by the EU as a global actor.

Four key phases of European development policy evolution can be identified, among which the most significant innovations will be discussed. These include firstly the early formative period of association; secondly, the peak of Third World power during the time of self-determination and the New International Economic Order (NIEO), which marked

the establishment of the first Lomé Convention; thirdly, the challenge of neoliberalism, and finally, the period most relevant to this study, the Lomé reform process and the revised partnership framework that has been introduced under the Cotonou Agreement. Finally, it will be suggested that development policy is an important tool that the EU uses to manage its aspirations to be a global actor, but, like the Common Foreign and Security Policy, also demonstrates traits of Hill's (Hill, 1993) Capabilities-Expectations Gap (CEG). In this manner, the rationale and broader processes at work in EU development policy will be established in order to lay the foundations for a discussion into whether there is congruence or a conjunction between the EU's ambitions to treat the Pacific as a region and the actual potential for cooperation along the EU model.

## II. ASSOCIATIONISM

The original organising principle of Community development policy was grounded in the concept of "associationism." Associationism was influenced primarily by the European colonial legacy with Africa, and especially the French agenda for continuity in its relations with its overseas territories, concomitantly with its pursuit of the twin goals of peace and prosperity in Europe. Associationism was based on the notion of complementarity between the metropolitan areas and the colonies, and the corollary of mutual benefits between them. The French incorporated it as a guiding principle in relations with their territories after the Second World War in the Pacific and, most importantly, Africa. Essentially, it was neo-colonialism, but presented in a form which referred to autonomy, equal rights and obligations and mutual efforts to pool resources and to develop each other's civilisation.<sup>1</sup> Associationism established a separate political identity for overseas territories, but where they still remained a part of the state processes of the former colonial power. The historical evolution of the partnership is illustrated in Table 1.1.

Consequently, it was the strong relationship that France and Belgium had with the countries and territories still under their jurisdiction that led the European Community (EC) to adopt an associationist development policy with the Third World. The status of these territories in relation to the Community was a political issue that had to be resolved during the negotiation of the Treaty of Rome in the late 1950s. Since closer economic

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<sup>1</sup> Enzo R.Grilli, (1993), The European Community and the Developing Countries, Cambridge University Press, London, pp. 1-6; Majorie Lister, (1997), The European Union and the South, Routledge, London & New York.



**Table 1.1: Evolution of EU-ACP Cooperation**

Year	Event	No. of countries	
		AASM/ACP	EC/EU
1957	Creation of the European Economic Community (EEC). Rome Treaty provides for association of countries with special relations with the EC.	—	6
1964	Yaoundé I Convention between EC and Associated African States and Madagascar	18	6
1969	Yaoundé II (EC-AASM)	18	6
1975	Lomé I Convention, between EC and the African, Caribbean and Pacific states (ACP). Non-reciprocal trade preferences and export stabilisation measures introduced.	46	9
1980	Lomé II Convention (EC-ACP)	58	9
1985	Lomé III Convention (EC-ACP) Social development goals introduced.	65	9
1990	Lomé IV Convention (EC-ACP) Political Conditionality elements strengthened.	68	12
1995	Lomé IV <i>bis</i> – after mid-term review of Lomé IV, between the European Union and ACP, after ratification of Maastricht Treaty in 1993.	70	15
1996	Green Paper on future of EU-ACP partnership published. Dialogue and negotiations commence and continue for a successor agreement to Lomé, 1996-1999.	70	15
2000	Cotonou Agreement signed on 6 June 2000 in Benin (EU-ACP). Preferences to be phased out, except for LDCs. Regional, differentiated approach to trade with ACP introduced. NB. Six more Pacific Island countries join the ACP ( <i>Niue, Cook Islands, Nauru, Palau, Micronesia, Marshall Islands</i> ).	78	15
2002	September, ACP-wide negotiations on format of regional negotiations on Economic Partnership Agreements begin with EU.	78	15
2003	April, Cotonou Agreement ratified. October, ACP-wide negotiations close. First regional EPA negotiations commence with West and Central Africa.	79	15
2004	February and April, regional EPA negotiations begin with Southern Africa and the Caribbean, respectively.	79	15

Source: Bretherton and Vogler, 1999; & Commission of the European Communities, 2000.

integration incorporated the economies of territories which were not part of Europe, this was one of the early implications of integration affected how Europe dealt with the world. France, supported by Belgium, would not compromise on association, as its price for joining the Community and completing the Treaty of Rome, so that its free access to imports from its former colonies would not be hindered.<sup>2</sup> In effect though, the French

<sup>2</sup> Martin Holland, (2002), *The European Union and the Third World*, Palgrave, New York, p. 25.

approach was myopic, as associationism limited the scope of relations that the Community could have originally had with the developing world to those who had special status in relation to the member states. In this case, however, squabbles over the form of external development policy were subordinated to the overall opportunity to build the common market.<sup>3</sup>

Consequently, Articles 131-136 in Part IV of the Treaty of Rome renewed the kind of commercial and financial relationship that France had enjoyed with its colonies:

“The purpose of the association shall be to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole...association shall serve primarily to further the interests and prosperity of the inhabitants...in order to lead them to the economic, social and cultural development to which they aspire.”

From these clauses, three essential principles and practices can be derived that instituted a distinctive Community approach to development. These were the characterisation of cooperation as a partnership between the Community and the developing world, along with principles for a range of trade and aid instruments. These specific mechanisms of association have endured. Financial aid was provided for through the European Development Fund (EDF), supported directly by member state contributions, and lasting for periods of five years.<sup>4</sup> Most importantly, the associates were granted privileged access to EC markets, ahead of other developing countries and regions, but the preferences appeared to be discriminatory under the GATT.

The only exception under GATT to the goal of equality in global trade relations was Article XXIV, which specified that customs unions or FTAs were acceptable if they did

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<sup>3</sup> Grilli, The European Community and the Developing Countries, op cit., pp. 7-8; Commission of the European Communities, (1996), Green Paper on Relations between the European Union and the ACP Countries, Challenges and Options for a New Partnership, 20 November, European Community, Brussels, p.9.

<sup>4</sup> Currently incorporating the EDF into the EU budget is under review for the fourth time in its history. The Commission argues that ‘budgetisation’ will make EU aid more publicly accountable, allow more flexible responses to realities on the ground, as well as bringing oversight of a considerable proportion of the aid budget to the European Parliament. However, there are risks that member states’ contributions may be on the basis of the lowest common denominator, if budgetisation incurs extra costs to them. Britain, Spain and Ireland were most opposed to this proposal in October 2003 for this reason. Eurostep, (2003), ‘European Commission Supports Budgetisation of the EDF’, Proactive File, No. 328, 26 September; Commission of the European Communities, (2003), ‘Incorporating the EDF into the EU Budget’, Rapid Press Release, accessed at: <http://www.europa.eu.int/>, 16 October 2003.

not discriminate against outside members. The logic was that regional arrangements might provide a 'second-best route' to multilateral trade liberalisation without discrimination. Therefore, the EC was in dispute with other GATT members about its preferential trade arrangements. In response, the EC argued that Article XXIV did not apply because of the development dimension to the relationship, since the provision was never meant to apply to North-South trade agreements.<sup>5</sup> Associationism was always intended to be a partnership between the developed and the developing world. It was not constructed deliberately to discriminate against non-ACP states, even if it had this effect. The dispute was never settled at this stage, and as a result Special and Differential Treatment (SDT) of the developing world by Europe became a compounding problem.

### III. HERITAGE: THE YAOUNDÉ & LOMÉ CONVENTIONS

The Yaoundé and Lomé Conventions introduced several key instruments of the European model of development cooperation and incrementally modified the associationist framework in response to new internal and external challenges to the political economy of development policy. No sooner had associationism been introduced, the African decolonisation movement gained momentum. This required the negotiation of a new Convention of Association in 1964, christened the Yaoundé Convention. Yaoundé reflected the change in legal status from territories to independent nation-states among the majority of the associates. Joint institutions were established in the European Council and the European Parliament to coordinate and administer development cooperation, as well as a Court of Arbitration. The latter was relevant, as Yaoundé was a negotiated, if asymmetric, set of bilateral preferential trade agreements between the former associates and the Community. The unified approach, and the 581 million ECU financial package under the second EDF, made Yaoundé attractive to the associates, and the Convention was renewed for a further five years in 1969.<sup>6</sup>

However, by the time that Yaoundé II was approaching the end of its life, the entry of the UK into the Common Market, along with its Commonwealth, and the increasingly assertive voice of the Third World within the United Nations for the NIEO imposed upon

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<sup>5</sup> Theodore H. Cohn, (2000), Global Political Economy, Theory and Practice, Longman, New York, p. 244-250; Stefan Szepesi, (2003), Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, Masters Thesis, Maastricht University.

<sup>6</sup> Christopher Piening, (1997), Global Europe: The European Union in World Affairs, Lynne Rienner, Boulder, Colorado, p. 184.

the Community a more pressing requirement to support the developing world and respect their autonomy. The occurrence of the oil crisis in 1973, also gave the developing world more negotiating leverage over Europe, which was willing to accommodate concessions in order to preserve access to raw materials in Africa.<sup>7</sup> Thus, this set of circumstances gave birth to the first Lomé Convention, named after the Togolese capital in which it was signed in 1975. Lomé was a more mature, comprehensive agreement than Yaoundé, as it provided a single robust framework for organising the Community's trade and aid with the associates. What is more, the Lomé Convention served this function for 25 years.

The Lomé Convention also created the equally enduring political entity whose future is perhaps now called into doubt by the regional focus of the post-Cotonou reform process; the African Caribbean and Pacific states, or the ACP. The creation of the ACP was necessitated by the inclusion of the Caribbean and Pacific members of the Commonwealth. This meant that the *francophone* obsession with Africa was diluted as the driving force behind the development agenda, so that the Convention became a more equitable partnership, similar to how the British Commonwealth operated.<sup>8</sup> Surprisingly, the new ACP group was able to forge a strong consensus and spoke through a single spokesperson during the negotiations with the Commission. One of the advantages then of the ACP is that it provides a forum for collective diplomacy, where many leaders of the developing world can collaborate and discuss common issues. However, the ACP has never developed the inclination to act as a collective in other multilateral negotiations. Instead, its members have chosen to act through other sub regional organisations. The Economic Community of West African states (ECOWAS), the Caribbean Community (CARICOM), or indeed the Pacific Islands Forum (PIF) are all examples of regional groupings whose members are part of the ACP. This may be because the ACP states see most value in the preferences of the partnership, rather than its potential to be a vehicle for an equal voice in multilateral affairs.

Lomé incorporated significant aspects of the NIEO agenda, to address the concerns raised under Yaoundé that the associates remained some of the poorest countries in the world. Firstly, trade concessions were bolstered by swapping the requirement for reciprocal trade preferences to a nonreciprocal relationship. Secondly, steps were taken to protect the revenue the developing world earned from primary exports from the ravages of price

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<sup>7</sup> Grilli, The European Community and the Developing Countries, op cit., p. 26.

fluctuations, by introducing compensation payments under the system known as STABEX, the System for the Stabilisation of Export Earnings. For products which competed with sensitive Community agricultural products, such as sugar, rum, beef and veal, specific commodity 'protocols' were negotiated to allow certain quantities of imports into the EC at guaranteed prices. When the EC's separate Generalised System of Privileges (GSP) under GATT is included too, the Community had a comprehensive set of trade preferences with the entire developing world by 1976.

Generally, then, Lomé consolidated a system of unconditional aid, and an extensive system of non-reciprocal trade, which gave the developing regions of the world in the EC's orbit a significant advantage in access to EC markets. The rhetoric of the Preamble to Lomé I went so far as to proclaim a new era in development cooperation through the establishment of:

“a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and more balanced economic order.”<sup>9</sup>

In reflection of these sentiments, the ACP states had full, unconditional responsibility over their internal political arrangements and development strategies. Lomé also bolstered the Yaoundé framework with remodelled institutions: the ACP-EC Council of Ministers; the Committee of Ambassadors; and the Joint Consultative Assembly. Each body brought together combinations of European and ACP members of state. The innovations contained in Lomé I made steps to institute a progressive programme that in theory could rectify some of the problems relating to dependent development that had become apparent under Yaoundé. However, in practice the rhetoric of partnership did not match the actual conduct of relations, since Europe set the development agenda.<sup>10</sup> More to the point, once instituted, a global preferential trade model of aid and development has conditioned the ACP to be dependent on the Community, and has proved difficult to undo. For this reason, trade preferences have become one of the complicating factors in the application of the regional free trade model proposed by the post-Cotonou process.

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<sup>8</sup> Holland, *The European Union and the Third World*, op cit., pp. 32-33.

<sup>9</sup> Cited in Charlotte Bretherton, and John. Vogler, (1999), *The European Union as a Global Actor*, Routledge, London, p. 115.

<sup>10</sup> John Ravenhill, , (1993), *'When Weakness Is Strength: The Lomé IV Negotiations'*, in William Zartmann (ed.), *Europe and Africa: The New Phase*, Lynne Rienner, Boulder, Colorado & London.

#### IV. THE NEED FOR REFORM

The high hopes for partnership and autonomous development of the ACP through trade preferences under Lomé were not realised. By the 1990s, the Lomé regime was coming under serious doubt against the neoliberal agenda for trade liberalisation, and was suffering criticism for its economic inadequacy. While other reforms and aspects of the reform to the ACP-EU partnership are important, such as those relating to political conditionality and management of economic aid, the most relevant area of reform to this study is how the EU and the ACP chose to address the problems of economic partnership, and the implications for regional cooperation which lie therein. Despite tariff-free access for as much as 99 per cent of export products and the agricultural commodity protocols, the share of ACP trade in EU imports declined from 7 per cent in 1975, to 4.3 per cent in 1980 and by 1998 to an astonishingly disappointing figure of 3 per cent, continuing the pattern from Yaoundé (cf. Tables 1.4).<sup>11</sup> Part of the problem was that the non-ACP countries in Asia and Latin America out-performed the ACP states. Between 1976 and 1992, ACP exports grew at an annual rate of 2.28 per cent, whereas Latin America grew at 5.97 per cent and Asia's growth was roughly five times the ACP's at 11.7 per cent (cf. Table 1.2).<sup>12</sup> Trade patterns also shifted away from Africa and the ACP, as the CEECs formed a proportion of trade with Western Europe in the region of three to four times the figure of the ACP states.<sup>13</sup> Although it is true that the volume of trade between Europe and the ACP grew as much as six fold under the preferential regime, from the signing of the Treaty of Rome to the early 1990s, over much the same period, the actual value of the preferences was also reduced by the general post-war trend to lower tariffs.

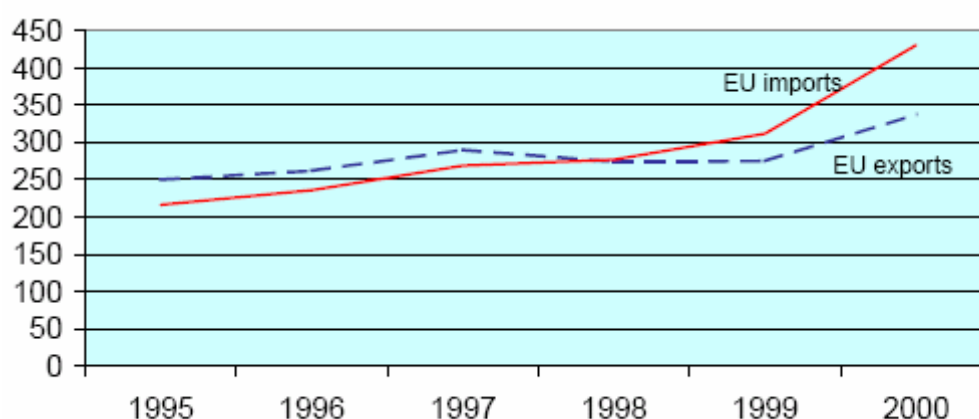
In reality, the ACP became less of a priority to the Community during the 1980s, as internal economic integration gathered speed, and enlargement and the end of the Cold War occurred, which made the Mediterranean and the Central and East European Countries (CEEC) of greater relevance to the dreams of European policy-makers, and the

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<sup>11</sup> Szepesi, Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, op cit., p. 6; European Centre for Development Policy Management, (2001), Cotonou Info Kit, European Centre for Development Policy Management, Maastricht, accessed at: <http://www.ecdpm.org>, 24 February 2003.

<sup>12</sup> Bretherton and Vogler, The European Union as a Global Actor, op cit., p. 123.

<sup>13</sup> Martin Holland, (2003), 'The Challenge of the Cotonou Partnership Agreement', Asia-Pacific Journal of EU Studies, Vol. 1, No. 1, p. 65.

**Figure 1.1: EU Trade with Developing Countries, 1995-2000**

Source: Commission of the European Communities, 2002.

**Table 1.2: EU - Developing Country Trade - 1976-1994 (ECUs billion)**

<i>Imports into the EU</i>	<i>1976</i>	<i>1980</i>	<i>1985</i>	<i>1990</i>	<i>1992</i>	<i>1994</i>
ACP	10.5	19.4	26.8	21.9	18.0	18.6
Asia	6.7	16	26	50.9	66.4	84.3
Latin America	8.3	13.7	25.8	25.7	24.8	27.6
Mediterranean	9.6	16.4	32.3	29.8	30.3	30.8
All LDCs	70.7	114.3	128.9	143.8	145.6	160.7
All non EC	157.7	269.9	399.7	461.5	487.6	540
<i>Exports from EU</i>	<i>1976</i>	<i>1980</i>	<i>1985</i>	<i>1990</i>	<i>1992</i>	<i>1994</i>
ACP	9.6	15.7	17.4	16.6	17.0	14.9
Asia	7.5	13.1	29.4	41	47.1	70.5
Latin America	7.7	12	13.5	15.6	20.4	29.6
Mediterranean	12.3	19.8	29.8	28.5	28.6	33.1
All LDCs	550.9	83.4	121.7	134.2	153.1	184.4
All non EC	141.3	221.1	380.8	415.3	436.1	539
World	292.9	475.1	811.8	1076.6	1137.8	
<i>Share of Imports from outside EU (%)</i>	<i>1976</i>	<i>1980</i>	<i>1985</i>	<i>1990</i>	<i>1992</i>	<i>1994</i>
ACP	6.7	7.2	6.7	4.7	3.7	2.8
Asia	4.2	5.9	6.5	11	13.6	13.1
Latin America	5.3	5.1	6.5	5.6	5.1	5.4
Mediterranean	6.1	6.1	8.1	6.5	6.2	6.1
All LDCs	44.8	42.4	34.7	31.2	29.9	34.2
All non EC	100	100	100	100	100	100

Source: EUROSTAT - ODI - March 1996 & Commission of the European Communities, 2000, Cotonou Agreement.

<b>Table 1.3: ACP Trade with the World (excl. S. Africa)</b> (Million ECU/euro and per cent share)								
	<i>1980</i>	<i>1990</i>	<i>2001</i>			<i>1980</i>	<i>1990</i>	<i>2001</i>
Imports	21,637	40,410	96,896		Exports	22,397	36,450	84,982
world share (%)	<b>2.1</b>	<b>2.0</b>	<b>1.8</b>		world share (%)	<b>2.3</b>	<b>1.9</b>	<b>1.7</b>
Trade Balance	760	-3,960	-11,914					

<b>Table 1.4: EU Trade with ACP (excl.S.Afri.) (Million ECU/Euro and %)</b>								
<i>Rank IMPORTS</i>	<i>1980</i>	<i>1990</i>	<i>2001</i>		<i>Rank EXPORTS</i>	<i>1980</i>	<i>1990</i>	<i>2001</i>
<b>7</b>	21,720	20,986	31,495		<b>8</b>	17,985	17,406	27,515
Share of EU Total (%)	<b>7.9</b>	<b>4.8</b>	<b>3.1</b>		Share of EU Total (%)	<b>8.9</b>	<b>4.4</b>	<b>2.8</b>
Trade Balance	-3,735	-3,580	-3,980					

Source: Eurostat, 2003.

demands on the European budget.<sup>14</sup> The global free trade agenda of the GATT Uruguay Round to remove tariffs and non-tariff barriers to free trade also undermined the foundations of privileging certain developing countries before others, culminating in the case of the WTO ruling in 1997 that ACP banana exports to the EU violated international trade laws.

Furthermore, it became increasingly difficult for the EU to justify the geographical inconsistency of the ACP.<sup>15</sup> The needs of the ACP states are far from heterogeneous, considering the disparity between the Caribbean and the African LDCs, not to mention the particular development issues facing small island developing states (SIDS) in the Pacific. There appears to be no logical reason for why ten of the world's LDCs were omitted from the Convention, why Brazil and India, two of the most significant developing states, are excluded, or why all of Asia is excluded from the ACP; besides the politico-historical considerations discussed. It may be argued then that the ACP is anachronistic. Furthermore, aid dependence and weak institutions in the LDC ACP states have made dialogue difficult. Despite these criticisms, the ACP Secretariat has consistently argued that the global partnership and institutional framework is an adequate way to manage EU-developing world relations, since if the ACP was split up there is the possibility that the

<sup>14</sup> Bretherton and Vogler, *The European Union as a Global Actor*, op cit., p. 118.

<sup>15</sup> Holland, 'The Challenge of the Cotonou Partnership Agreement', op cit., pp. 65-66.



ACP states will no longer have the same bargaining power against the EU. However, as the partnership “diminished in substance,” to the point it “tended to be restricted to the institutional side of cooperation and the joint administration of aid resources”, arguments for ACP unity appeared less axiomatic.<sup>16</sup> Therefore, the rationale for reform of the ACP’s preferences emerged from internal pressures of European integration and the external geopolitical and multilateral challenges which questioned the assumptions of an associationist partnership, and indicated that a qualitatively better successor was needed to Lomé.

## V. BEYOND LOMÉ IV: THE 1996 GREEN PAPER AND ON TO COTONOU

The pressing issue was to decide on a formula that measured up with, in the words of Development Commissioner, Professor Pinheiro, the “new challenges and new preoccupations” of the global environment, which framed the parameters for the reform of European development cooperation, while also satisfying the desirable aspects of the partnership arrangement which the ACP wished to preserve, or more fundamentally, would not exist without.<sup>17</sup> For the first time in 25 years the EU was prepared to alter the terms on which its partnership with the ACP was based.

Hence, new reasoning and new language entered the EU-ACP dialogue. Reciprocity, differentiation and regionalism were several catch words that set the tone for the reform process, and figured prominently in the Commission’s Green Paper on relations between the European Union and the ACP, in 1996. The Green Paper was a think piece to help guide positions to be adopted in the negotiations to consider what might succeed Lomé IV, scheduled for 1998. The Green Paper made the case for a radical reform agenda. What is more, many of the essential proposals which are necessary to understand the post-Cotonou Agreement process may be found in it. These may be presented under the inter-related dimensions of politics and good governance, trade liberalisation, and regionalism.

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<sup>16</sup> Commission of the European Communities, Green Paper on Relations between the European Union and the ACP Countries, Challenges and Options for a New Partnership, op cit., p. 12.

<sup>17</sup> ACP General Secretariat, Friedrich Ebert Stiftung Foundation and Management and European Centre for Development Policy (ECDPM), (1997), Conclusions of the Workshop on ACP Perspectives on Future ACP-EU Cooperation, ACP/28/040/97, 16 June 1997, ACP Secretariat, Maastricht, accessed at: <http://www.acpsec.org/gb/lome/future/confutgb.htm>, 13 October 2003

The Commission stressed that “a stronger political relationship between the EU and the ACP countries (was) needed to breathe new life into the partnership”.<sup>18</sup> In particular, reform was intended to tackle how respect of human rights and security concerns in terms of conflict prevention, and the associated issues of regional peace and stability, and migration, could be addressed. Following this logic, maintaining the special status of the ACP was the most preferred option, because of the longevity of the relationship, and the aspect of predictability, which was valuable to LDCs least equipped to deal with a rapidly changing global environment. The qualification, however, from the Commission was that it could not succeed without mutual political commitment from both parties to reform institutions and the effectiveness of aid programmes to meet these objectives. The language used evidences the Commission has adopted a belief that there is a causal link between underdevelopment and the absence of political stability and good governance.<sup>19</sup> Consequently, an implication was that aid would have to be targeted selectively to facilitate such reform. Human rights, democratisation and good governance were emphasised as essential issues to the development agenda. In effect the Green Paper proposed that “contract” replace “contractual” in the description of the partnership. More revolutionary were the implications for the geographical configuration of the ACP, required for the political dialogue to implement the new agenda. The Green Paper presented standard bilateral and multilateral options, but also introduced the new possibility of relations between the EU and sub regional groups.

Under this heading, the Green Paper discussed the concept of differentiation, which meant that in order to improve the effectiveness of the political and economic relationship, the EU was prepared to treat particular ACP states or regions in a manner consistent with their development status, or more specifically, their capability to comply with the more stringent political and economic impositions of the reform agenda. The fundamental question relating to the proposal for regional differentiation was whether the ACP was an appropriate partner for the EU, or was too anachronistic. Four possible options were tabled, that blended the old associationist logic with the new rationale for sub regional cooperation. In many ways the regional reform agenda appeared to reproduce the logic of regional integration that had been experienced in European integration. These were, firstly, the status quo, or a global agreement, but with differentiated provisions depending

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<sup>18</sup> Commission of the European Communities, Green Paper on Relations between the European Union and the ACP Countries, Challenges and Options for a New Partnership, op cit., p. vi.

on the development status of the recipient country. Secondly, was the option of a global agreement, but supplemented by tailored bilateral agreements. Thirdly, and more radically, was the possibility of splitting Lomé up into regional conventions to take advantage of headway achieved there in regional cooperation, to assist regional initiatives to improve the competitiveness of ACP production, and to strengthen regional institutions for enhanced political dialogue. Lastly, related to this, was the Green Paper's suggestion that the LLDCs be treated separately, thus introducing a 'multi-speed' approach to development cooperation, so that the EU could move ahead with abolishing trade barriers with those developing countries in the ACP which were able, in order to satisfy WTO compatibility requirements.

Similar considerations had to be addressed under the reformulation of the trade relationship, which was one of the pressing areas where change was unavoidable. Although regionalism was preferred by the EU, the Green Paper was still concerned to observe the spirit of Lomé, by avoiding breaking up the ACP group as an entity, to prevent the poorest ACP countries from being marginalised any further, and to preserve the special ACP-EU link. Again, a menu of options was produced. Provision of non-reciprocal preferences was considered, with additional political cooperation features added to augment the status quo. Secondly, the Commission proposed to remove trade relations entirely from the negotiations, where the Community's GSP would be applied bilaterally or multilaterally. In opposition to this was the unlikely option to require the ACP to extend reciprocity in time to EU exports, exactly in compliance with WTO expectations. Lastly, and most prominently, were options for differentiation, which expanded on the principles of reciprocity, and graduation. Basically, the EU would seek region-to-region FTAs, or as under the options for altered geographical coverage of the ACP, include different options of trade relations depending on the level of development within each ACP state.<sup>20</sup>

Therefore, the proposals contained in the Green Paper reflected how the EU was influenced by the norms of the multilateral framework in the 1990s, to liberalise, promote the role of the private sector and to adopt a strategic approach to the use of aid and trade as mechanisms for development, as well as placing more emphasis on democratisation

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<sup>19</sup> cf. Ole Elgström, (2000), 'Lomé and Post-Lomé: Asymmetric Negotiations and the Impact of Norms', *European Foreign Affairs Review*, Vol. 5, No. 2, p. 187.

<sup>20</sup> Commission of the European Communities, *Green Paper on Relations between the European Union and the ACP Countries, Challenges and Options for a New Partnership*, op cit., pp. 65-67.

processes and good governance.<sup>21</sup> Furthermore, as the status quo was next to impossible to maintain beyond 2008, the logic contained in the presentation of the proposals made it certain that the ACP would have to accept a model of reciprocal trade liberalisation, of either a global or regional nature.<sup>22</sup>

## VI. THE COTONOU AGREEMENT: NEW WINE IN OLD WINESKINS

The Cotonou Agreement has become the flagship of European development policy, but was also a product of compromise. The actual provisions and form of cooperation adopted were not as radical as the Green Paper, despite the enthusiasm of the Commission for liberal economic reform over social development, as the negotiating process among the member-states and between the EU and the ACP moderated the Commission's initial proposals for reform. The EU member-states were divided on the pace of trade liberalisation, as they wished to afford the ACP states a measure of protection and preparatory time, as well as on how much preference might be granted to the ACP under the Commodity Protocols, in the context of review of these measures in the WTO.<sup>23</sup> Furthermore, the asymmetric nature of EU-ACP negotiation meant that the member-state preferences for “partnership, foreseeability and contractuality” expressed in the European Council formed the final Commission negotiating mandate.

The Cotonou Agreement itself consists of five key pillars: a reinforced political dimension, involvement of civil society and the private sector in the partnership dialogue; poverty reduction as a key objective; an innovative economic and trade cooperation framework; and rationalised aid and financing instruments.<sup>24</sup> The agreement in fact maintained many of the features of the Lomé Conventions, as well as introducing new innovations which were touched on in the Green Paper. Cotonou maintains the contractual nature of the partnership agreement with the ACP, but over a much longer timeframe: 20 years. In this respect, the integrity of the EU-ACP framework has been preserved, but this is probably due substantially to the salience of the patron-client relationship and moral norms of the EU member-states, regarding the implications of free trade for social development and aid strategies, than the influence of the ACP over the agenda. Although many of the ACP's

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<sup>21</sup> Elgström, 'Lomé and Post-Lomé: Asymmetric Negotiations and the Impact of Norms', op cit., p. 176

<sup>22</sup> Kenneth Karl, (2002), 'Economic Partnership Agreements - Hopes, Fears and Challenges', *The Courier*, No. 195, November-December, p. 21.

<sup>23</sup> Holland, *The European Union and the Third World*, op cit., pp. 186-88.

concerns about the continuation of the partnership were addressed in the internal EU negotiations, the compromise between morals and trade liberalisation bequeathed mixed objectives to Cotonou.

Hence, the general objectives in Article 1 of Cotonou did not deviate from the rhetoric of Lomé IV, and the TEU, to promote the economic, cultural and social development of the ACP, and to integrate the ACP states into the global economy (cf. Figure 1.2). Building capacity for social development and democratisation, as well as encouraging “regional and subregional” processes were explicitly mentioned to facilitate these objectives. Among the other important highlights of reform, were those contained in Article 2, which outlined four fundamental principles to govern EU-ACP relations. Equality was preserved at the forefront, as was the principle that the ACP states are responsible for implementing development strategies in line with the objectives of the agreement.

As a remedy for underdevelopment as explained in the Green Paper, the political dimension was incorporated virtually intact, and consolidated the terms of Lomé IV. Human rights, democratic principles and the rule of law henceforth constituted “essential elements,” of the agreement, but defined good governance in lesser terms as a “fundamental element.” The political dialogue and conditionality aspects of Cotonou were controversial, but only so far as they raised the possibility that the EU might be able to interfere in the affairs of ACP states, in spite of the principle of equality and ACP ownership of development strategies. At worse, failure to observe essential or fundamental elements could lead to suspension from the agreement. Beneath the apparent consensus was fundamental divergence over the weight carried by ‘political dialogue.’ It was a prerequisite for development to the EU, whereas, to the ACP, politics was subordinate to development.

Although, many of the old “desirable” features of Lomé were retained, differentiation, regionalisation, and reciprocity were affirmed by the Cotonou Agreement under several new innovations. Firstly, Cotonou adopted regionalism, under the model of group-to-group relations with the ACP sub groups, as sketched by the Green Paper, as the future organising principle for EU-ACP relations. The rationale is that regional integration is the most effective strategy for integration of the ACP states into the global economy, since

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<sup>24</sup> Commission of the European Communities, (2000), The Cotonou Partnership Agreement, *The Courier*,

### Figure 1.2: The Cotonou Partnership Agreement

#### Main Objectives and Principles

##### *Central Objective:*

The Central Objective of the Partnership Agreement is to reduce and eradicate poverty while contributing to sustainable development and to the gradual integration of ACP countries into the world economy.

##### *Fundamental Principles:*

- *Equality of partners and ownership of development strategies.* In principle, it is up to ACP states, in all sovereignty, to determine how their societies and economies should develop
- *Participation.* Apart from central government as the main partner, partnership is open to other actors in civil society, the private sector and local government.
- *Dialogue and mutual obligations.* Other obligations beside trade and aid are a part of the Partnership, including respect for human rights and observation of good governance criteria.
- *Differentiation and regionalisation.* Cooperation agreements will vary according to the partner's level of development, its needs, its performance and its long-term development strategy. Special treatment will be given to countries that are classified as least-developed, or vulnerable; ie. Landlocked or island states.

Source: European Centre for Development Policy Management, 2001, Infokit, No. 2.

integration schemes can enhance efficiency through economies of scale and competition, and provide an attractive destination for Foreign Direct Investment (FDI); in addition to consolidation of peace and security.<sup>25</sup> Furthermore, a cooperation strategy based on regions will in theory allow the EU to better tailor development strategies to the specific needs of each region. This is not to mention the EU has preferred to deal with regions in global relations where possible. The regional model has been applied to both general development strategies, as well as the provisions for economic and trade cooperation.

In Articles 28-30 of Cotonou, the EU describes its general cooperation strategy will be to build on the local regional cooperation initiatives of the ACP sub regions, to accelerate cross-regional linkages and trade capacity. In Articles 34-37, the provisions on the new trade arrangements, the model of reciprocal free trade between the various subgroups of the ACP and the EU has been enshrined as the solution to the deficiencies of the Lomé preferences:

Special Issue, September 2000, European Community, Brussels, p. 7.

<sup>25</sup> Commission of the European Communities, (2002), Communication to the Council and the European Parliament: Assisting Countries to Benefit from Trade, COM(2002) 513 final, 18 September, European Community, Brussels, pp. 13-14.

“Economic and trade cooperation shall build on regional initiatives of the ACP states, bearing in mind that regional integration is a key instrument for the integration of ACP countries into the world economy (Article 34).”

“...the parties agree to conclude new World Trade Organisation compatible trading arrangements, removing progressively barriers to trade between them and enhancing cooperation in all areas relevant to trade (Article 36).”

Henceforth, the EU considers the region as the primary political unit with which to negotiate free trade agreements, as well as in the other areas of cooperation and aid disbursement and management. Article 37 goes on to outline in specific detail a timeframe for the negotiation of new trading arrangements, described as “Economic Partnership Agreements” (EPA), which are intended to enter force no later than January 2008. The EPAs are the specific template for regional economic integration within the ACP regions. Consequently, it is this framework for cooperation which will be tested against the Pacific case and will be discussed in more detail in subsequent chapters. Here it is sufficient to say that the EPAs are intended to be *FTA-plus* WTO compatible regional free trade agreements, which means the trade agreements negotiated with the EU will not only seek to abolish trade barriers internally and with the EU, but will also have a clear development dimension, given the continuation of economic aid, as earlier described.<sup>26</sup> Therefore, Article 37 explicitly takes into account the observation of WTO rules by both parties (Figure 1.3), but EPAs are more generally meant to deepen the regional integration processes within the ACP, as the EU argues that regional integration is the best cooperation strategy for achieving the Maastricht objectives, of integration into the global economy and to eradicate poverty.<sup>27</sup>

Within this process, though, the principle of differentiation has been observed. The transition is intended to be as flexible as possible, so negotiations will only begin with ACP countries which consider themselves ready. Moreover, Cotonou seeks to differentiate between the LDCs, landlocked and island states, and the rest of the developing states in application of the liberalisation agenda, since these states will continue to have free access

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<sup>26</sup> Szepesi, Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, op cit., p. 7; European Centre for Development Policy Management, Cotonou Info Kit, No. 14, op cit.

**Figure 1.3: Aims of post-Cotonou Agreement Negotiations, Article 37.7-8**

7. Negotiations of the economic partnership agreements shall aim notably at establishing the timetable for the progressive removal of barriers to trade between the Parties, in accordance with the relevant WTO rules.
- On the Community side trade liberalisation shall build on the *acquis* and shall aim at improving current market access for the ACP through *inter alia*, a review of the rules of origin.
  - Negotiations shall take account of the level of development and the socio-economic impact of trade measures on ACP countries, and their capacity to adapt and adjust their economies to the liberalisation process.
  - Negotiations will therefore be as flexible as possible in establishing the duration of a sufficient transitional period, the final product coverage, taking into account sensitive sectors, and the degree of asymmetry in terms of timetable for tariff dismantlement, while remaining in conformity with WTO rules then prevailing.
8. The parties shall closely cooperate and collaborate in the WTO with a view to defending the arrangements reached, in particular with regard to the degree of flexibility available.

Source: Commission of the European Communities, 2000, p. 26.

to “essentially” all products from 2005, in evidence of the compromise to member states’ opinions, and the diversity of the ACP group (Articles 85-89). Consequently, although the regional focus was supposed to supersede preferential bilateral agreements, Cotonou has managed to maintain a paradoxical double-standard, where on the one hand the LDCs are protected from liberalisation, but at the same time regional free trade agreements are expected to be concluded with the constituent regions of the ACP. Although the EPA framework, regionalism and differentiation are supposed to better meet the different development needs of the 79 states in the ACP, it may be argued then that the inconsistencies between regional free trade and sustainable development of the ACP may contribute to the disintegration of the ACP as an umbrella for EU-ACP relations, as the region-to-region negotiations are concluded. To generalise, regionalism, reciprocity and differentiation together are perhaps paradoxical elements of the Cotonou Agreement.

Nevertheless, negotiations commenced with the entire ACP in September 2002, to develop legally binding guidelines for the negotiation of regional EPAs, over the course of one year. This was achieved on schedule, but only because of pressure from the EU to stick to

<sup>27</sup>Commission of the European Communities, (2002), Pacific ACP European Community Regional Strategy



the transition timetable, irrespective of the ACP's wish to continue 'phase one' negotiations throughout 2004 to resolve sixteen outstanding WTO-compatibility issues. Instead, a Joint Declaration was delivered that merely offers "guidance" for regional negotiations, which delivers much less assurance to the ACP than a legally binding agreement that the EU will treat the ACP regions uniformly when conducting regional trade negotiations. The end result was that in October 2003, the EU was able to launch its first regional negotiations with West and Central Africa, with CEMAC and ECOWAS, respectively, as planned.<sup>28</sup>

## VII. SALIENT IMPLICATIONS FOR THE PACIFIC

A few points may also be raised now about the problematic nature of the regional strategy in the Pacific, in anticipation of subsequent chapters. The first is the question of how the region is defined. For the EU, the Pacific is synonymous with the Pacific Islands Forum states. However, this excludes many sub regional identities and linkages, as well as strong external ties with Australia, New Zealand and the United States. A second problematique relates to the unresolved tension between Article XXIV and the EU. Article XXIV is meant to ensure that regional integration agreements do not become protectionist, by stipulating that tariffs and trade restrictions must be eliminated on "substantially all" trade among member states within a "reasonable" period of time.<sup>29</sup> However, the definition of these terms remains unresolved in the WTO, despite attempts during the Uruguay Round to clarify them. The jurisprudential tradition on the issue is that when 90 per cent of the total bilateral trade is liberalised, an RTA may be considered an FTA. The EU has adopted this definition to ensure compatibility in the future, but as these issues are addressed at WTO Ministerials as the Doha Development agenda is addressed during the transition phase to the EPAs, the PACP states may find themselves exposed to compliance with tighter definitions of a regional FTA if changes occur in the multilateral legal environment.<sup>30</sup>

This problem is exacerbated by the immature and unbalanced trade relationship between the EU and the PACP, compared to Africa and the Caribbean. For this reason, the technical feasibility of a regional FTA with the PACP is doubtful. The development levels

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Paper and Regional Indicative Programme for the period 2002 – 2007, European Community, Brussels, p. 6.

<sup>28</sup> Eurostep, (2003), *Proactive File*, 328-330, October, various issues.

<sup>29</sup> Cohn, Global Political Economy, Theory and Practice, op cit., pp. 247-48.

within the group are quite disparate, since five are LDCs, and consequently have little incentive to liberalise, since the EU has promised flexibility over engaging in EPAs, and the LDCs have the assurance of access to EU markets with the implementation of the “Everything But Arms” initiative (EBA) parallel to Cotonou, under the GSP. More to the point, only Fiji, Papua New Guinea and possibly Tonga have the potential to develop trade concessions to comply with the 90 per cent guideline, and might be able to benefit from such a contractual arrangement.<sup>31</sup> These issues remain to be fully explored, but it is clear that the template the EU chooses to adopt in its dealings with the developing world will have consequences, besides the constant pressure from the European integration process for external relations to be ‘coherent, consistent and complementary,’ and more recently to be multilaterally ‘compliant.’ This discussion raises one final issue with which to close this analysis of the evolution of EU development policy; how development policy fits into the EU’s broader aspirations to “assert its identity on the international scene” (Article B[2], TEU).

## **VIII. DEVELOPMENT POLICY:**

### **AN EXAMPLE OF THE ‘CAPABILITIES-EXPECTATIONS GAP’**

As can be discerned from the previous discussion, development policy has been a method that the EU has used to manage its relations with a significant proportion of the countries in the world, well before Europe’s Common Foreign and Security Policy was formalised under Pillar II of the TEU. However, the Maastricht pillars have split development policy up between the commercial activity of the Community in Pillar I and foreign policy in Pillar II. This segregation appears to be absurd, where North-South relations should be firmly part of foreign policy, but due to nature of the TEU, the EU’s external presence has been diluted. More importantly, the TEU gives overall direction to all aspects of external policy, to ensure the consistency of its external activities (Article C[3]), and in particular Article 130u places upon the EU the obligation to act pursue policies complementary to the member states’ development policies. This may in fact diminish the value of the EU’s role if it is running a development policy that duplicates member state activity. However,

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<sup>30</sup> Roman Grynberg, (2000), Asymmetric Reciprocity in the Post-Lomé Framework, Implications for Trade Relations in the Pacific, Pacific Islands Forum Secretariat, Suva, accessed at: [http://www.acp-eu-trade.org/biblio\\_pacific.php](http://www.acp-eu-trade.org/biblio_pacific.php), 14 July 2003, p. 2.

<sup>31</sup> Roman Grynberg, and Bonapas Onguglo, (2002), A Development Agenda for the Economic Partnership Agreement between the EU and the Pacific ACP (PACP) A Concept Paper, EU-Least Developed Countries Network, accessed at <http://www.eu-ldc.org/downloads/PACP.doc>, April 2003, p. 3.

history demonstrates that despite its uncomfortable position in the EU architecture, the partnership framework has helped the developing world take advantage of the EU's power as a global trader and as an advocate of political stability and democracy.<sup>32</sup>

Nevertheless, the uniform approach of Lomé and Cotonou to the developing world has produced an asymmetric relationship between Europe and the partner states. What is more, history shows that the arrangements of the partnership agreement have been governed by piecemeal reform, as the geographic scope of the ACP expanded. Furthermore, when the implications of the application of both regionalism and differentiation are considered, the Cotonou Agreement might well be classed as a further example of Hill's (Hill, 1993) Capabilities-Expectations Gap. Hill's essential point was that expansion of the EU's capabilities as an external actor has been talked up to a point that it is not capable of fulfilling the new expectations.<sup>33</sup> Transition periods and flexibility aside, with the new focus on regionalism the EU may be making a broad assumption that it can classify regions arbitrarily within the ACP, and furthermore that it is possible to achieve the stipulated degree of functional and thematic benefits of scale economies through regional integration in a context of underdevelopment. Therefore, it is argued that the EPA template is a further example of the CEG, as a discernable gap appears to exist between the expectations of the post-Cotonou process, and the ability of the ACP regions to meet those obligations, which will likely result in the extent of reform to the partnership falling short of the vision in Cotonou.

## IX. CONCLUSIONS

Therefore, among the reforms to the political, aid and trade dimensions to the EU-ACP partnership, it is the regional focus which is clearly controversial. Regional cooperation strategies and EPAs will be extremely problematic to implement. Consequently, this is why the regional aspects of the Cotonou reforms represent a novel aspect of EU development policy to investigate. While in the past the EU conducted its relations with the ACP mainly out of moral concern for the former colonies and the historical rationale of associationism, the transnational norms governing the relationship have now sufficiently diverged such that a new set of principles is determining how the EU should deal with the

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<sup>32</sup> cf. Bretherton and Vogler, *The European Union as a Global Actor*, op cit., pp. 109-10; Commission of the European Communities, *Green Paper on Relations between the European Union and the ACP Countries, Challenges and Options for a New Partnership*, pp. 37-38.

<sup>33</sup> Christopher Hill, (1993), 'The Capability-Expectations Gap, or Conceptualising Europe's International Role', *Journal of Common Market Studies*, Vol. 31, No. 3, p. 306 & p. 315.

developing world. The Cotonou Agreement reflects the first definitive attempt to break with the legacies of associationism, but as its agenda deals with encouraging development through free trade it appears to have an ambiguous focus when the details are assessed. Cotonou did not utterly break the Lomé mould, but is innovative enough to signal a paradigm shift, and as such may be considered as “new wine in old wineskins.” These tensions, as well as the “pillarisation” of development under Maastricht, contribute to a ‘Capabilities-Expectations Gap’ regarding the negotiation of regional EPAs. Moreover, the journey from Yaoundé to Lomé to Cotonou, as well as the patchwork of cooperation and association agreements outside the ACP, shows a clear preference by Europe to deal with the world through regional templates. The experience of the EU-ACP partnership should also illustrate that the appropriate lens for viewing cooperation in the developing world is one that takes account of both politics and economics. The following chapter will aim to develop this approach more in relation to analysing regional integration schemes in the developing world, since this model has replaced the associationist conventions as the primary EU mechanism for integrating developing states, such as the Pacific ACP states, into the global economy.

## Chapter Two

# Theoretical Approaches to Regional Integration and Development

### I. INTRODUCTION

Among other points, the previous chapter established two arguments. The first was that EU development cooperation, including the Cotonou Agreement, has been coloured by associationist political considerations. The second was that a differentiated regional template has been adopted by the EU to manage its partnership with the ACP states, consistent with the EU's tendency to conclude agreements with regions. Moreover, the EU's plans to negotiate regional EPAs are consistent with a recent phenomenon in global trade relations and the study of world politics to conclude regional trade agreements (RTA).<sup>1</sup> Thus, the literature on regionalism is the logical theoretical context in which to situate the proposed EPAs, since regionalism is a discourse which is broad enough to incorporate both the political and economic agendas which are driving the future of EU-ACP cooperation. At the heart of this matter are questions of how regional institutionalisation may affect the interests and preferences of actors; how regional forms might condition identity; and, directly relevant to the post-Cotonou Agreement Process (PCP), whether regionalism accelerates or retards free trade and multilateral exchange between states. Whether regionalism is a threat or a building block to multilateralism is another outstanding issue, in relation to WTO-compatibility. As hinted at previously, though, the application of a WTO-compatible regional free trade scheme to the Pacific, or a developing world context in general, is problematic. It will be argued that this is because regional integration, as a mechanism for integrating the developing world into the global economy, as expressed under EU development policy, is located in a 'Eurocentric' perspective of development, and does not account for the peculiarities of regional cooperation in the developing world. Hence, the chapter will discuss theorisation about

regionalism and regional integration, and aims to sketch out a framework to at once situate the discussion of developing world regionalism in the calculus of political economy, and correct the fallacy that European theories of integration have the same normative potential to make accurate predictions about regional integration in the developing world.<sup>2</sup> This was demonstrated after the failure of EC-style integration in Latin America and mixed results in the Caribbean, yet, with the renewed enthusiasm for regionalism, Western European assumptions about regional cooperation have crept back into the development rhetoric with little appreciation for the lessons of the past. Hence, this investigation is primarily intended to illustrate the factors which influence cooperation at the regional level and to provide the theoretical, or propositional ‘tools’ to measure and predict the integrative potential of the South Pacific, in relation to the model of economic integration that the Cotonou Agreement envisages for the region. Implicit in this, is the argument that a political economy approach recognises the challenges and prospects for EU development policy in the South Pacific.

In order to develop these tools, elements of this chapter will be devoted to the definition of key concepts. The review of integration theory will also begin with theories of European integration, as it is the EU model of regionalism which has informed and continues to colour much of the debate about regional cooperation. It will be argued that these theories describe the European case best. Nevertheless, this has not prevented various attempts to deploy them as general theories of regional integration. Subsequently, a political economy framework will be developed, based on the conceptual approach employed by W. Andrew Axline (1979; 1984) on the politics of regional integration among underdeveloped states in the Caribbean, and also the Pacific. This will be expanded upon with the insights of Walter Mattli (1999a), whose general investigation into the outcome of regional integration schemes emphasises the rational motivations of demand and supply behind regionalism, aspects of which may be instructive for the developing world. This will iterate the importance of domestic factors in regional cooperation in the developing world. Furthermore, the review should also reveal the similarities between the ‘new’ direction of EU development policy and some of the

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<sup>1</sup> Of 200 agreements that have been notified to the WTO, half of these have been reported within the last seven years Stefan Szepesi, (2003), Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, Masters Thesis, Maastricht University, p. 1.

<sup>2</sup> W. Andrew Axline, (1979), Caribbean Integration, The Politics of Regionalism, Frances Pinter, London, p. 33.

traditional issues surrounding regionalism and FTAs, and provide justification for the deployment of older approaches in the literature to regional cooperation.

## II. THE STUDY OF REGIONALISM

### 1. Defining Regionalism

#### (i) *'New Regionalism' and 'Old Regionalism'*

Instances of regional cooperation can be traced as far back as the early nineteenth century, to early customs unions among the German states, prior to unification.<sup>3</sup> Likewise, the study of regionalism spans an equally extensive range of disciplines, and has reasserted itself as a concept with the proliferation of regional entities and cooperation schemes, since the end of the 1980s. The EU remains the textbook case of mature regionalism because of the extent to which it has become politically integrated, but integration processes have also become revitalised in the Americas, including Mercosur (the Southern Common Market) and NAFTA; in Asia, with APEC and ASEAN, and also in Africa where a number of sub continental arrangements exist, such as the South African Development Community (SADC) or very recently, the emergence of the African Union, in imitation of the style of the EU.<sup>4</sup> The term 'new regionalism' has been coined in order to incorporate the diversity of examples and theoretical dynamics of the subject. The context of new regionalism is in the changing nature of the international order caused by the end of the Cold War, and the rise of structures and processes that are transnational in nature, or seek mutual security in regional blocs from fears over the stability of the WTO multilateral trade order and the Bretton Woods development infrastructure.

Similarly, 'old regionalism,' or the analysis of regional integration which occurred between the 1950s and 1970s, before the lull in European integration caused the field to stagnate,<sup>5</sup> was conditioned by its geopolitical context. Two such issues that were of

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<sup>3</sup> Walter Mattli, (1999a), The Logic of Regional Integration, Europe and Beyond, Cambridge University Press, p. 1.

<sup>4</sup> Robert Gilpin, and Jean M. Gilpin, (2001), Global Political Economy : Understanding the International Economic Order, Princeton University Press, Princeton, pp. 341-43; Michael Schulz, , Frederik Soderbaum and Joakim Ojendal, (eds.), (2001), Regionalisation in a Globalising World, Zed Books, London & New York, pp. 1-4; Eurostep, (2003), *Proactive File*, 328-330, October.

<sup>5</sup> See, for example, Haas, Ernst B., (1975), The Obsolescence of Regional Integration Theory, Institute of international Studies, Berkeley as a marker of the theoretical turn from the study of integration in its own right in the social sciences to new a picture of diffuse global order where states were not the only actors, such as complex interdependence Robert O. Keohane and Joseph S. Nye, (1989), Power and Interdependence: World Politics in Transition, Scotts, Foresman, Glenville.

immediate concern after the Second World War were security, with respect to how cooperation could prevent interstate conflict, while the second was with how regionalism could advance the cause of economic development.<sup>6</sup> Thus, literature that is concerned with regionalism exists among theories such as neorealism, functionalism, neofunctionalism, market and trade integration, and development theory, to name a few. This review will concentrate on those aspects of regionalism which are most relevant to understanding regional cooperation in the developing world.

### *(ii) Regionalism and Regionalisation*

Before proceeding further though, it is necessary to define more specifically some operational terms. Mention has been made so far of old regionalism and new regionalism. However, the distinction should also be made between ‘regionalism’ and ‘regionalisation,’ as these have become quite distinct expressions under new regionalism. Regionalism may be defined as a “state-led or states-led project designed to reorganise a particular regional space along defined economic and political lines,” as suggested by Gamble and Payne (1996). This definition stresses the realist dimension of regionalism, or the concrete strategic programmes of states as well as interstate cooperation and institution building that facilitate the kind of security and welfare goals typical of old regionalism.<sup>7</sup> Schulz (2001) argues that this can be a false dichotomy in the context of new regionalism, but regionalism, as a more state-centred approach, is probably more relevant to the study of integration processes in the developing world. This is because regionalisation describes the trans-national methods of exchange, or regional processes which lead to closer cooperation and integration. It is thus less concerned with the interests of national governments, as it is with cross border flows in the private sector, the market, people or ideas which build regional identity. As will be shown, national interests are the primary force behind regionalism in the developing world, and most certainly in the case of the Pacific, rather than the unchallenged advance of regionalisation, as the new regionalism suggests. Both regionalism and regionalisation must however include some sort of geographical limit on what constitutes a region,

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<sup>6</sup> Cf. W. Andrew Axline, (1994), *The Political Economy of Regional Integration*, Pinter Publishers, London, pp. 8-9; Shaun Breslin, , Christopher W. Hughes, Nicola Phillips and Ben Rosamond (eds.), (2002), *New Regionalisms in the Global Political Economy Theories and Cases*, Routledge, London and New York, p. 2; Amitav Acharya, (2002), *Regionalism and the Emerging World Order, Sovereignty, Autonomy, Identity*, in Shaun Breslin, Christopher W. Hughes, Nicola Phillips, and Ben Rosamond (eds.), *New Regionalisms in the Global Political Economy Theories and Cases*, Routledge, London and New York, pp. 21-22.



otherwise the concept becomes unmanageable. As the terrain of regionalism can be rather rough, it appears best to deploy an overarching term when referring to both phenomena as a whole. Consequently, in order to incorporate the variance in political intensity of the various competing conceptualisations of regionalism, the term 'regional cooperation' will be employed.

It is now necessary to direct attention towards the actual varieties of regionalism mentioned among the different theoretical approaches. As demonstrated, modern regionalism and integration theories arose in response to the sustainability of the nation-state as a vehicle for effective and peaceful government in Europe and subsequently movements towards regional cooperation in Latin America, the Caribbean and Africa, which sought to emulate the success of European integration. As a result, European efforts at regional integration have dominated the theoretical landscape, and cooperation in the developing world has mainly been analysed from this perspective, partly out of a lack of empirically based generalisations upon which to generate a proper theoretical perspective on regional cooperation among developing countries.<sup>8</sup> It is one hypothesis of this thesis that the post-Cotonou process is informed by similar assumptions that theories of European integration can be equally applicable in the various ACP regions as in Europe, particularly with respect to the integrative and welfare potential of economic integration. Therefore, several of the most influential theories of European integration will be surveyed in both politics and economics, and then evaluated against the substantial body of literature on regional integration and development.

## **2. Political Approaches to Regional Integration: Theories of European Integration**

### ***(i) Theories of Functionalism***

The Treaty of Rome provided the first substantial blueprint for emulation by many regional ventures in the Third World. Early initiatives such as CARICOM, ECOWAS or the Andean Group adopted models of economic integration, which encompasses various degrees of market integration as defined by Balassa (1961), proceeding from

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<sup>7</sup> Note Andrew Gamble, and Anthony Payne, (1996), *Regionalism and World Order*, MacMillan Press, London, pp. 1-6; Schulz, Soderbaum and Ojendal, *Regionalisation in a Globalising World*.

<sup>8</sup> Axline, *The Political Economy of Regional Integration*, op cit., pp. 182-83.

<b>Figure 2.1: Stages of Regional Economic Integration</b>					
	<i>Free Trade Area</i>	<i>Customs Union</i>	<i>Common Market</i>	<i>Economic Union</i>	<i>Political Union</i>
Removing all tariffs among members	×	×	×	×	×
Common external tariff		×	×	×	×
Free movement of factors (labour and capital)			×	×	×
Harmonisation of Economic policies				×	×
Political Unification					×

Source: Cohn, 2000, p. 36; Gilpin and Gilpin, 2001, p. 343.

FTA to customs union, common markets and economic unions (Figure 2.1). As such these schemes also emphasised cooperation in shared functions among states. David Mitrany (1943) first developed the key proposition that new peaceful forms of authority could be established through cooperation in non-political areas. This premise rested on the assumption that such cooperation over ‘functions’ was feasible due to advances in communications and transportation, and economic integration.<sup>9</sup> Although not a theorist of regionalism, Mitrany sparked the interest of researchers like Karl Deutsch (1957) whose transactionalism was primarily concerned with how peace could be established through post-national community building. The applicability of transactionalism to regionalism lies in Deutsch’s assertion that the states system could be stabilised through building a sense of community across a region, as a function of communication, or transaction. Transactionalism is therefore in vogue once again, under new regionalism, because it emphasises mutual responsiveness and common linkages which build regional communities. However, the theory is difficult to measure empirically, especially the assumption that interaction leads to positive cognitive change. Thus, transactionalism is a good general theory, and anticipates later work on regionalisation, but it failed to catch attention as much as “neofunctionalism,” which laid out a set of testable propositions to apply to understanding regional integration in the developing world.

<sup>9</sup> Gilpin and Gilpin, *Global Political Economy : Understanding the International Economic Order*, op cit., p. 350.

Neofunctionalism, developed firstly by Ernst Haas (1964; 1958; 1968) and subsequently, Leon Lindberg (1963) and Philippe Schmitter (1970; 1971), evolved out of Mitrany's focus on cooperation in technical and functional areas, the key concepts of 'low politics' (cooperation in non-controversial welfare activities) and 'high politics' (cooperation in security matters) and the transferability of cooperation between them. However, where functionalism was normative, neofunctionalism was a probabilistic theory. As the early European initiatives in economic integration, such as the European Coal and Steel Community (ECSC), were the only 'low' political areas through which functionalism could be tested, the EC became the laboratory in which to test the relationship between technical cooperation and political integration. Haas' work therefore went further than Mitrany's to analyse how the process of integration actually occurred, within a broader trend in the 1960s to examine political behaviour.

Consequently, Haas' neofunctionalism was based on several premises expressed in a way which was unique from previous theorising on post-national community building. One was that political agency among rational actors was essential to the integration process. The second considered politics as a group activity, and that, thirdly, these self-interested groups may transfer their loyalties to the transnational level in pluralistic societies, thus envisaging a supranational polity driven by technocratic cooperation. Thus, the framework of neofunctionalism, built extensively on the empirical evidence of the ECSC, the EEC and Euratom described the process of integration as 'automatic.' When a set of countries decide to work for integration in a common area of interest, which only existed at the time in economics, to accomplish the task more effectively, they appoint it to a supranational bureaucracy, which in turn encourages integration in other cognate areas as the benefits of cooperation are realised. This was encapsulated by the term "spillover." Lindberg defined spillover as "a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions."<sup>10</sup> Lindberg also contributed the rationale that for political integration to occur, region-level institutions would need to be present, that there be congruence between participant states' interests in projects which were "expansive," in that they generated tensions which would lead to the incorporation of more actors. Neofunctionalism

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<sup>10</sup> Leon N. Lindberg, (1966) [1963], *The Political Dynamics of European Economic Integration*, Stanford University Press, Stanford, p. 10.

therefore hinges on the belief that economic and technological forces are driving the world toward greater political integration.<sup>11</sup> Hence, the theory is completely linear in its assumption that once the process of economic and technical integration has been launched, spillovers from one functional area to another will inevitably push political elites from below to move from less intense to more intense political integration, and ultimately unification, since the process is assumed to be beneficial and desirable.

However, Haas and the neofunctionalists had to accept that the automaticity of spillover in low political areas required a measure of political direction. Consequently, at its ultimate evolution, neofunctionalism attempted to explain spillover as part of a dynamic strategy to achieve functionalist ends, as described by Schmitter.<sup>12</sup> Here loyalty to central organisations and structures was essential for the process to work; however, the predictive capacity of the Haas-Lindberg model of integration suffered severe damage in the 1960s, with the resurgence of nationalism in European politics. DeGaulle's passion for statehood and the national interest within the Community stalled institutional integration in 1965, until the famous Luxembourg Compromise in 1966, and blocked British accession to the Community between 1963 and 1973. Stanley Hoffman (1966) was the first to reassert a state-centric case for regional cooperation. Hoffmann critiqued the neofunctionalists by stating how states' interests defined the particular context for integration. Diversity of interests would be at odds with the integrative forces at work in economics, especially when supranationalism might threaten sovereignty, as had apparently occurred in Europe. Hansen (1969) also summarised several essential problems with the construction of neofunctionalism with his argument that neofunctionalism did not explain the external influences on integration for member states, or the interrelation between low and high politics that might cause instances of spillover.<sup>13</sup> Economic gains could arise from intergovernmental cooperation as much as through supranational governance.

Haas himself eventually admitted that neofunctionalism was limited by its roots in the analysis of social change and decision-making in pluralistic societies, and because it

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<sup>11</sup> Gilpin and Gilpin, Global Political Economy : Understanding the International Economic Order, op cit., p. 352.

<sup>12</sup> Phillippe C. Schmitter, , (1970 & 1971), 'A Revised Theory of Regional Integration', in Leon N. Lindberg, and Stuart A. Scheingold (eds.), Regional Integration Theory and Research, pp. 232-264, Harvard University Press, Massachusetts.

suffered from an acute dependent variable problem, since the level of integration or final destination of integration was always ill-defined, especially in the case of Western Europe. Therefore, while neofunctionalists had aimed to develop a sophisticated theory and methodology of examining the processes of nation-building and comparative regional analysis, they had tended to exaggerate the expansive effect of increments within the economic sphere and the gradual politicisation dynamics of spillover, as well as the enduring importance of national interests and the interdependence between the international environment and the integrating region. In essence, the theory was good for explaining the processes at work in the initial stages of European integration, as well as the revival of integration in Europe in the mid-1980s,<sup>14</sup> but does not deeply describe why regionalism should expand along functional lines, or to give a theoretical account of the welfare benefits of regional integration. Yet, neofunctionalism is still highly relevant to theorising regional integration in a developing world context because of the synergies it possesses with theories of economic integration.

### *(ii) Statist Theories*

As a result of the 'anguish' of neofunctional pretheorising, intergovernmentalism has become the significant other of the theoretical discourse relevant to the study of regionalism.<sup>15</sup> As already mentioned, intergovernmentalism establishes the central role of national governments and heads of state, as the key units of analysis, which carefully circumscribe how much sovereignty may be sacrificed to achieve common goals. Thus, classic neorealist intergovernmentalism argues that regional cooperation will occur when it is in the mutual interest, relative to each state's position to its survival in an anarchic world order.<sup>16</sup> Bargaining among states tends to converge toward the lowest common denominator. The realist focus on power relations is helpful then for elucidating important features of regionalism, which neofunctionalism cannot explain. Andrew Moravcsik (1998; 1991; 1993) offers the most ambitious attempt to develop a general theory of integration based on intergovernmentalism, known as liberal intergovernmentalism. Moravcsik posits a two-stage approach to integration, by focusing

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<sup>13</sup> See Ben Rosamond, (2000), *Theories of European Integration*, St. Martin's Press, New York, pp. 74-80.

<sup>14</sup> For example Wayne Sandholtz and John Zysman, (1989), '1992: Recasting the European Bargain', *World Politics*, Vol. 42, No. 1, pp. 95-128 who looked at the role of international developments that developed the European Commission as a policy entrepreneur.

<sup>15</sup> Ernst B Haas, (1970 & 1971), *The Study of Regional Integration: Reflections on the Joy and Anguish of Pretheorising*, in Leon N. Lindberg & Stuart A. Scheingold (eds), *Regional Integration Theory and Research*, pp. 3-44, Harvard University Press, Massachusetts.

on how grand interstate bargains are negotiated, which is similar to multi-level institutional analysis in international relations. In the first stage, national preferences are determined by opportunities and constraints imposed by economic interdependence, or in other words national preferences determine the 'demand' for integration. The second stage is at the interstate level, where interests are bargained through intergovernmental negotiations at the European level; the supply side of integration.

Thus, liberal intergovernmentalism attempts to explain integration primarily with respect to interstate bargaining. An advantage of Moravcsik's work is that it is grounded strongly in observed empirical observation of European politics; particularly into how institutionalisation might affect the interests of rational actors. One interesting, but paradoxical argument of liberal intergovernmentalism is that integrative bargains, presented to national constituencies as a 'take it, or leave it' dichotomy, may actually strengthen the state. By the same token, though, a theory which explains integration with respect to convergence of preferences is hard to validate, and ignores prior and subsequent events, as well as the implication that convergence of member states' interests could result in rejection of integration. The demand side of liberal intergovernmentalism also sounds much like neofunctionalism, in the sense that domestic and transnational society expresses preferences which governments pursue through international bargains and supranational institutions.<sup>17</sup> To generalise, then, perhaps one of the most useful insights of liberal intergovernmentalism is how it illustrates how states may use intergovernmental fora and institutions to advance domestic agendas, and maximise their gains.

To summarise, the review of the principle political approaches to integration reveals several salient issues for regional cooperation in the developing world. The first point relates back to the wider issue between the importance in regional integration of states' interests versus supranationalism. Some intriguing questions in relation to integration in the developing world is how domestic imperatives may encourage states into integrative agreements, and to what extent this is to recapture a measure of sovereignty in relation to endogenous and exogenous pressures. Furthermore, the purposefulness and level of

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<sup>16</sup> Rosamond, *Theories of European Integration*, op cit., pp. 130-134.

<sup>17</sup> Mattli, *The Logic of Regional Integration, Europe and Beyond*, op cit., pp. 6-7; Mattli, Walter, (1999b), 'Explaining Regional Integration Outcomes', *Journal of European Public Policy*, Vol. 6, No. 1, March, pp. 28-31.

autonomy of regional institutions as agenda-setters is an important independent variable in determining the depth of political cooperation.

### **3. Economic Approaches to Regional Integration**

#### ***(i) Traditional Customs Union Theory***

A substantial contribution to theorising regionalism has been made by the theory of economic integration, because integration of this kind is more readily achievable in this way among states with similar interests and backgrounds than at a universal level.<sup>18</sup> Economists who study regional integration are concerned less with institutions or governance than with the market relationships among goods and factors of production to assess the welfare benefits of integration. Jacob Viner's (Viner, 1950) work on the static effects on production and consumption which result from inter-country substitution in goods assessing the welfare consequences of regional trade agreements was stimulated by the acceleration of economic integration in Western Europe. Previously to Viner's analysis, it had been assumed that regional agreements would produce traditional Ricardian gains from free trade, including specialisation, improved terms of trade, competition and greater efficiency. Viner pointed out though that for a customs union, or indeed an FTA, the consequences are ambiguous for generating welfare increases within the region, and may result in negative effects as well from trade diversion. Trade diversion is the result of the establishment of a common external tariff (CET), where trade from countries external to the region is diverted to suppliers within the region.<sup>19</sup> Alternatively, it may represent the welfare change caused by substituting low-cost imports from the rest of the world with higher-cost imports from regional producers. A regional integration agreement affects welfare negatively because of the loss of tariff revenue. Trade creation is analogous to Ricardo's concept of comparative advantage, but on a regional scale, where welfare benefits arise because high-cost domestic production is replaced by lower-cost production in the partner country, and inefficient industry is rationalised across the region. As markets are opened through reduction of tariffs and trade barriers within the region, each country specialises production, to serve the markets of partner countries.

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<sup>18</sup> Hiroshi Kitamura, (1966), *'Economic Theory and the Economic Integration of Underdeveloped Regions'*, in Miguel S. Wionczek (ed.), Latin American Economic Integration, Praeger, New York, p. 46.

Thus, according to classical CU theory, trade diversion must be less than trade creation for countries in an RIA to make welfare gains. A positive welfare effect from forming an FTA is likely when partner countries already have extensive trade with each other, and the region's external tariff, or common tariff, is low to attract imports from third countries. There also need to be responsive demand and supply elasticities within the partner countries' markets to respond in price changes, as well as efficient regional transportation to keep the cost of goods low. However, Viner's analysis assumes that there will be perfect competition, fixed prices and constant returns to scale. Furthermore, the principle of relative factor endowments in the Heckscher-Ohlin trade model predicts that regional integration may disadvantage the owners of scarce production factors, as a result of specialisation as industry is redistributed across the region, and if labour and capital are not mobile enough to cope with the cost of adjustment. There is also the matter of terms of trade in relation to world markets, as FTAs may not necessarily influence world commodity prices even if more efficient production of goods is a result of regional cooperation.<sup>20</sup>

More fundamental to the framework and issues relating to regional integration in the Pacific which will be developed later is that traditional theory does not address itself to the major issues of interest to development; namely how economic integration will deal with the dynamic structural conditions of production and technology, specialisation and foreign investment. This is because the theory also fails to deal with the distribution of costs and benefits of integration across a region, and the role of actors in determining integration outcomes.<sup>21</sup> The dynamic effects flowing from the creation of a larger economic area are surely the most desirable long-term reasons for following a model of economic integration.

This literature has extensively coloured the arguments for economic integration as a strategy of regionalism. Although the classical frameworks have been statist, regional cooperation at any of these levels does introduce functional pressures for deepening integration, and the transference of authority and perhaps legitimacy to the regional level.

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<sup>19</sup> Gilpin and Gilpin, Global Political Economy: Understanding the International Economic Order, op cit., pp. 346-48.

<sup>20</sup> Szepesi, Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, op cit., pp. 15-17.



Consequently, in this way it can be seen how regionalism is the appropriate theoretical context in which to analyse the implications of the FTA negotiations which lie at the heart of the post-Cotonou process, as it raises questions about the relationship between the state and the market, between informal and formal integration and therefore politics and economics.

### **III. REGIONAL INTEGRATION AND DEVELOPMENT**

#### **1. Economic Integration and Neofunctionalism as Normative Theories of Integration in the Developing World**

Of the theories reviewed, customs union theory and neofunctionalism comprise the 'revised standard version' of regional cooperation in the developing world because they have been most rigorously applied.<sup>22</sup> In fact, the sub discipline of comparative regionalism has grown out of the application of neofunctionalism to cases beyond Europe. An implication of this is to avoid the temptation to model or compare regional integration schemes to the EU, which can be difficult, given the high degree of specialisation in EU studies and because the EU is the most enduring example of mature regional cooperation. However, this can create the fallacy that a degree of EU-style institutional and economic integration is the mark of successful regionalism.<sup>23</sup> What is important is to incorporate the concepts of dependency, inequality and national costs and benefits, as well as exogenous influences on a region, as thinking about development and integration has moved the theorisation of regional cooperation away from economic growth and mimicking the EC/EU, to an understanding of regionalism within the broader processes of the global political economy.

##### ***(i) Economic Integration***

The orthodox theory of economic integration outlined evolved with the developed countries of Europe in mind, expressly for the purpose of throwing light on the problems of integration in Western Europe.<sup>24</sup> This poses the question of to what extent the characteristics of less developed countries favour trade creation in regional integration;

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<sup>21</sup> Constantine V. Vaitsos, (1978), 'Crisis in Regional Economic Cooperation', World Development, Vol. 6, pp. 719-769, p. 751.

<sup>22</sup> Axline, The Political Economy of Regional Integration, op cit., p. 179.

<sup>23</sup> Breslin, New Regionalisms in the Global Political Economy Theories and Cases, op cit., pp. 11-12; Axline, Caribbean Integration, The Politics of Regionalism, op cit., p. 33.

and whether trade creation is the significant criterion for evaluating customs unions and FTAs in developing countries. Economic integration fits well with the concept of neofunctional spillover, since neofunctionalism is similarly concerned with a recasted relationship between politics and economics. Balassa (1961) captured the essence of this in her definition of economic integration, which used the term to refer to intergovernmental dialogue and formal cooperation between states as a progressive movement from a free trade area, to customs union, common market, monetary union, and finally political union, where the region would in essence be a super-state (Figure 2.2). However, as has been pointed out in the literature which has developed on regional integration in developing economies, similarly to the evolution of literature on political integration, the process is not automatic. Economic integration is a highly politically charged environment in which national governments must cede autonomy over important domestic matters to achieve benefits from higher stages of integration. This is not to mention that the countries in a given region cannot be assumed to be at an equal stage of development, and that traditional neo-classical customs union theory assumes the conditions of a modern industrialised economy are present.

A further issue for the suitability of integration schemes in the developing world based on traditional theories of economic integration is that FTAs are more likely to increase welfare if trade creation is in goods which are competitive and do not possess complementary markets producing similar goods. The picture which should be emerging illustrates that developing countries fail to fulfil the economic conditions to reap the benefits of scale economies in economic integration. Firstly, there is a distinct lack of competitive intra-regional trade or intra-firm trade that would facilitate integration, as well as the fact that these countries also compete with one another over a range of inelastic commodities to supply exports to foreign markets. Lastly, tariff policy is primarily aimed at generating revenue, rather than as a tool of commercial policy. For these reasons, among small states in a South-South RIA, the more developed countries' relative deprivation improves against the rest of the world, but the less developed countries' status worsens. The conclusion which has to be drawn is that the benefits of economic integration are unlikely to be reproduced in the developing world. At best integration is a non-issue; at worst it is positively harmful.<sup>25</sup>

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<sup>24</sup> Peter Robson, (1998), *The Economics of International Integration*, Routledge, New York, p. 270.

<sup>25</sup> *ibid.*, p. 270.

Realising the limitations from traditional theory, the experience of regional cooperation in developing countries progressed from promoting trade as an engine for growth through a customs union, such as Caribbean Free Trade Association (CARIFTA) or the Latin American Free Trade Association (LAFTA), to a means of industrialisation for economic development. Regionalism was considered as a tool to lessen the structural dependency of the developing world, thus coining the term *dependencistas*, or ‘dependency theory.’ The new strategy, advocated by the Economic Commission of Latin America (ECLA), and its director, Raul Prebisch, recognised that the main gain from integration is trade diversion, where the policies of import substituted industrialisation (ISI) can be employed.<sup>26</sup> ISI involved producing goods domestically that otherwise would have been imported. However, the theory did not work in practice because the domestic market for high cost industrial goods was not large enough in developing countries.

At the regional level, ISI offers a way of boosting national production by expanding it to the region, as firms supply other countries’ markets, but sacrifices the security of national protectionism. In other words, an economic integration scheme may be exploited for its negative effects as a way to reduce dependency of a region on trade with the rest of the world. Successful import substitution at the regional level, taken together with the regional use of resources, allows for a more efficient combination of factors of production through increased capital imports from foreign exchange savings and production for a regional market. The long-run goal is to hopefully increase trade with the rest of the world, off-setting the initial effects of trade diversion.<sup>27</sup> However, ISI as a strategy only proved beneficial if the partner states possessed the magnitude in scale economies to industrialise and produce efficient exports for the world market, as well as providing the regional facility to attract and distribute foreign investment. Nevertheless, the principle of ISI matured into a variety of regional cooperation amongst developing states known as “collective self-reliance,” as joint policies and political positions were adopted against the developed world.<sup>28</sup> Hence, collective self-reliance was a theoretically sophisticated approach to integration in the developing world, as it was grounded in a political

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<sup>26</sup> *ibid.*, p. 271.

<sup>27</sup> Axline, W. Andrew, (1977), 'Underdevelopment, Dependence, and Integration: the Politics of Regionalism in the Third World', *International Organisation*, Vol. 31, No. 1, pp. 84-86.

<sup>28</sup> As described in Chapter One, collective self-reliance was a driving rationale of the ACP when it was originally formed in the 1970s.

economy approach to regional cooperation that went beyond assessing the perceived or actual gains or losses from integration.

A final important consideration of the effects of integration and development, in terms of political dynamics, is related to how the costs and benefits of a collective self-reliance strategy may be distributed. It is axiomatic that for all integration schemes the gains and losses are not distributed evenly. Among underdeveloped states the disparities tend to be greater, with generally the more developed countries reaping the benefits, and the less developed countries becoming net losers. This is because the benefits of economic integration are felt most strongly in industrialised areas, which in an underdeveloped context means that growth will be concentrated in the most economically advanced areas, thus leading to polarisation. It follows that as growth occurs around certain poles, the economic activity attracts factors, exacerbating the existing inequalities within the region. This implies that regional economic integration must account for this tendency with measures that respond to polarisation, to redistribute the gains from integration, besides using the gains themselves as an incentive for forming an FTA.

### *(ii) Neofunctionalism*

Neofunctionalism came to be applied as a normative theory for development through regional cooperation since it was relatively successful in describing the early instances of European integration. Economic cooperation in functional areas was non-controversial, because the participating states were all developed industrial economies, and setbacks in integration were explained by exogenous variables (such as de Gaulle). However, as the general discussion of the theory of functional and technical integration illustrates, there are basic economic and political differences between advanced industrial economies and the economies of underdeveloped states, which means that the conditions of economic integration are different. The fundamental difference is that the ultimate goal of European integration was peace, security and prosperity. Pursuing functional integration raised the stakes of cooperation, if it failed. However, as noted the principal goal of integration for underdeveloped countries is the development of the region itself, and to address the various structural problems that impede their growth.<sup>29</sup> Neofunctionalism was applied as a normative theory to the developing world because ‘success’ was

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<sup>29</sup> Axline, Caribbean Integration, The Politics of Regionalism, op cit., pp. 7-8.

interpreted to mean a higher level of integration, or movement from ‘technical’ to ‘political’ spheres of cooperation, and because it claimed that integration could take place within delimited territorial regions. The neofunctionalists also broadened the focus to make predictions about emerging regionalisation trends outside of Europe, since its strength as a general theory could be bolstered if neofunctionalism could be validated against other cases of integration.

Haas and Schmitter produced several studies of integration beyond Europe. Haas became concerned with identifying the ‘background conditions’ that could be conducive to integration.<sup>30</sup> These included pluralistic social structures, substantial economic and industrial development and common ideological patterns among the participating actors. While this seems a logical strategy to assess the integrative potential of a region, the logic is flawed if it is considered that different regions may have different background conditions. Therefore, the predictive power of spillover appeared to be limited as a general theory of integration. To improve upon this state of affairs, Haas and Schmitter investigated the conditions under which automatic politicisation of background conditions might occur. Joseph Nye (1971 and Keohane & Nye 1989) argued that this focus on study of functional spillover was misplaced and possibly Euro-centric. Nye acknowledged the importance of background conditions but subdivided them into two categories, the structural and the perceptual. Structural conditions incorporated the learning of the neofunctionalists about the politico-institutional capacity to integrate, but beyond this Nye described the importance of the perception of the equity of distribution of the benefits; the perception of each actor’s view of their strategic position; and the potential for deep integration in relation to how high the price of integration was. Nye also raised the issue of specific historical factors which needed to be taken into account. In sum, Nye severely questioned the applicability of neofunctionalism as a general theory of integration. What became apparent when neofunctionalism was applied to Third World cases was that political unification through cooperation in economic activities remained the focus of analysis. The objective of integration and the dependent variable became confused. As argued, the *means* of achieving integration in Europe is the *goal* of regional cooperation in the developing world. Neofunctionalism was unable to explain

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<sup>30</sup> Ernst B. Haas, , (1961), 'International Integration: the European and the Universal Process', International Organisation, Vol. 15.

**Figure 2.2: Varieties of Regional Integration**

Balassa, Gilpin; Cohn, <i>et al</i> : Political Economy Classifications	Description	Nye (1968) Political Science Classification	<i>Overall Intensity of Integration</i>
Free Trade Area	Removing all tariffs among members	Token Integration	<i>Limited</i>
Customs Union	Common external tariff	Security Community	<i>Moderate</i>
Common Market	Free movement of factors (labour and capital)	Limited Functional Cooperation	<i>Significant</i>
Economic Union	Harmonisation of Economic policies	Economic Integration	<i>Extensive</i>
Political Union	Political Unification	Political Unification	<i>Extreme</i>

the process of political integration among developing countries because it was based on a premised relationship between politics and economics which is fundamentally different to the socio-economic conditions of underdevelopment.<sup>31</sup> The mistake was that it was assumed economic development was presumed to be synonymous with economic growth, which went hand in hand with the model of European integration along the model of a customs union and increasing economies of scale through industrialisation. All the steps of integration will be highly controversial. The rationale of neofunctionalism and the case for economic integration leading to an upgrading of common interests within a region alone provides little insight into regionalism in the developing world.

If integration is considered as a means to promote development, as the EU argues, then it should be emphasised that traditional neofunctional cooperation based on economic integration is likely to have a negative effect on development, with respect to incentives and welfare gains from cooperation that was the experience of Western Europe. Free trade liberalisation may in fact be harmful to development of a region if it exacerbates intra-regional disparities through polarisation and with the associated costs of harmonisation and the commitment to pursuing regional programmes and sectoral development. A further pertinent concern is the issue of vulnerability of developing

<sup>31</sup> Axline, *The Political Economy of Regional Integration*, op cit., pp. 182-84.

states in the global economy, particularly small island states.<sup>32</sup> This is not to discredit a free trade strategy in itself, but to note the caveat that measures must be taken to counter the disintegrative effects of functional economic integration. In other words, redistribution of the benefits and national positions must be factored into an analysis of regionalism in the developing world. This brings about the issue of what is a more theoretically appropriate perspective to frame regionalism in a context of underdevelopment.

## **2. A Political Economy Approach**

As the previous sections have illustrated, integration in the developing world has progressed from simple FTAs, to customs unions, to ISI schemes, to finally more mature forms of collective self-reliance, since the norms of economic and political integration – the expansionist logic of neofunctional spillover and the incentive of tangible rewards – are simply not present in developing countries. The essential point to conclude from the previous analysis though is that the relationship between integration and development is that development is the object of cooperation, not the means by which cooperation is achieved. Therefore, in the developing world, the foundation for regional integration must be considered as originating from the premise of ‘collective self-reliance,’ in which integration of national economies is no longer the sole focus of cooperation. Joint political actions define the activities of developing regions to make welfare gains, as much as economic activity.

Using these findings as a base, a political economy approach sees regional cooperation as part of a quest for a broadly based national development within the twin constraints of the domestic political system and the international economy, and thereby demands an emphasis on the holistic and historical processes of regional cooperation and development.<sup>33</sup> The previous chapter also revealed that EU development policy in fact represents the convergence of a number of disciplines from politics and economics, as it relates to how the state and the market interact. Cotonou also shows that development policy is increasingly concerned with political and civil society aspects of aid and assistance. A political economy approach reflects how historical and intellectual trends, as well as developments in world politics, have made the boundaries between disciplines such as

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<sup>32</sup> Uentabo Fakaofa Neemia, (1986), Cooperation and Conflict: Costs, Benefits and National Interests in Pacific Regional Cooperation, Institute of Pacific Studies University of the South Pacific, Suva, Fiji, p. 10-11.

politics and economics more permeable in the context of the study of regionalism. It is argued that such an approach is useful for understanding the regional cooperation provisions of the post-Cotonou process because the EU, by the most basic definition, is advocating a South-South-North model of economic integration, which raises the same familiar questions which have been dealt with by the discourse on development and integration. Consequently, the remainder of this chapter will be devoted to outlining the elements of a political economy approach for assessing regional cooperation in the developing world.

One of the most useful accounts on which to build such a framework are the analyses and concepts developed by W. Andrew Axline. It is an argument of this thesis that Axline's framework, although less contemporary to the work on new regionalism is still essentially applicable to assess the integrative potential of a developing region. Axline (1971) originally investigated customs unions and FTAs as a 'petrie dish' in which to conduct scientific study of foreign policy among national units, as they offered a bounded arena in which to analyse foreign policy behaviour. Over a series of publications, Axline refined and extended this framework, which led to examination of the politics of collective self-reliance schemes based on economic cooperation through examining the costs and benefits of cooperation to modify the basic precepts of the European model of integration (Axline, 1977). The framework was applied principally to regional economic integration in the Caribbean (Axline, 1979). Axline then went further to expand his framework to include the role of external factors in his analysis in order to broaden its explanatory power beyond economic integration schemes (Axline, 1984). The most valuable contribution of Axline, for this thesis, is the recognition of the point that while models of integration grounded in the European experience are not irrelevant, they must appreciate the economic and political conditions of cooperation among underdeveloped states.<sup>34</sup> Since, it has been determined that regional cooperation is more sensitive to the national interest in developing states; it requires that the foreign policy of the nation-state, rather than the level of integration is the appropriate unit of analysis. Consequently, the politics of regional negotiations, as well as a rational liberal intergovernmentalist perspective are justifiable elements of a political economy framework.

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<sup>33</sup> Axline, *The Political Economy of Regional Integration*, op cit., pp. 185-86.

<sup>34</sup> Axline, *Caribbean Integration, The Politics of Regionalism*, op cit., pp. xvii-xviii & p. 34.



It remains now to outline these elements to build a working framework to apply to Pacific regionalism, with the future of cooperation among the PACP states in mind. Firstly, recalling Nye's modifications to neofunctionalism, Axline argued that to understand the politics of regional cooperation, the factors that influence the perceptual opportunities of participation must be examined, since the reason for cooperation (the dependent variable) is not economic or political union, but the efficient functioning of a regime for the benefit of the region. Economic integration schemes remain the easiest to analyse, then, because the relative welfare benefits from common policies can be easily determined. However, as argued, since the nature of even economic cooperation among developing countries is fundamentally related to the pursuit of national development goals, each member state is likely to assess regional policies in terms of its individual costs and benefits, especially where those policies may be associated with an intergovernmental institution. As indicated, as the gains are unlikely to be distributed evenly, there may be mixed reaction or opposition. This led Axline to develop several broad generalisations concerning the politics of regional cooperation.

1. Regional organisations are more likely to succeed when member states see their needs being met by the institutions and policies which are meant to benefit the region.
2. Regional cooperation is more likely to succeed if "package deals" can be negotiated that bring regional benefits and can satisfy member states.
3. Support for a policy package will be according to the perceived opportunity costs and benefits, and is necessary for cooperation to proceed around packages.

Thus, the analysis then turns to the pattern of negotiations and the various forces which condition national political positions. Using this information, the positions of member states may be postulated, and by extension, the likelihood of success of integration in a region can be predicted. Since, member states are more likely to accept deals which satisfy their needs, in general, the more comprehensive a regional policy, the more likely regional policies and institutions will be accepted. Therefore, Axline concludes that there will be a direct relationship between comprehensiveness and the viability of a regional integration scheme.<sup>35</sup> Although, as cooperation moves further from strict economic

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<sup>35</sup> Axline, *The Political Economy of Regional Integration*, op cit., pp. 191-92.

integration, the costs and benefits will be harder to quantify, and integrative potential harder to predict.<sup>36</sup>

In this way, it is possible to identify types of regional policy packages and the likelihood of their success. Axline drew on the models of integration in the developing world, developed by Lynn K. Mytelka (1975). These helpfully summarise the peculiarities of developing world regional cooperation, and summarise the relationship between political and economic integration. Mytelka outlined three categories of regional cooperation in the developing world, which draws on the discourse on development and integration discussed. Briefly, these are:

1. **A *laissez faire* model** of traditional economic integration, based on the European pattern of FTAs and customs unions, whose main purpose is to expand intra-regional trade. Among underdeveloped countries it will lead to polarisation and increased dependence.
2. **A redistributive model**, which seeks to address the problems of the first. It is more complex, as it involves redistributive mechanisms, often involving state direction or intervention.
3. **A compromise model**, which included elements of both prior models, but also includes measures to reduce dependency; which corresponds to a collective self-reliance scheme.

The third model is the most likely to achieve the development goals of regional integration, but as it requires comprehensive integration, will be the most politically difficult to achieve.<sup>37</sup> This is because of the more complicated institutions, the wider scope of decision-making and greater commitment to regional cooperation than in the first two models.

Based on this classification of integration schemes, the policies which may be pursued by member states or regional institutions have been described in loosely similar terms:

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<sup>36</sup> W. Andrew Axline, (1984), 'South Pacific Region Cooperation in Comparative Perspective: An Analytical Framework', *Political Science*, Vol. 36, No. 2, December, p. 44.

<sup>37</sup> Axline, 'Underdevelopment, Dependence, and Integration: the Politics of Regionalism in the Third World', *op cit.*, pp. 84-90.

1. **Expansive policies**, which most closely correspond to *laissez faire* integration, which aim to make absolute increases in gain for the region;
2. **Distributive policies**, which anticipate in advance the equal distribution of any of the potential gains which may accrue from integration;
3. **Dependency-reducing** policies, or **expansive-distributive policies**, which prescribe a collective self-reliance scheme aiming towards free trade, development planning and regional redistributive mechanisms.

Naturally, the intensity of state intervention varies in each set of policies. The political dynamics of these models also correspond closely to Nye's intergovernmentalist classification of regionalism based on intensity of interactions and commitments between actors, ranging from token integration, to limited functional cooperation and finally to customs unions and ultimately full political union.<sup>38</sup>

Generally, during bargaining, the MDCs will favour an expansive strategy, where they can reap the majority of the benefits, because of the effects of polarisation. LDCs on the other hand, will prefer distributive policies which address the imbalances of cooperation.<sup>39</sup> This may result in coalitions that may form around 'poles of growth' and 'poles of stagnation.' Therefore, the inference from Axline's work is that to have the greatest integrative potential politically and institutionally, regional cooperation in the developing world needs to negotiate package deals which are expansive-dependency reducing. A significant implication of this is a high degree of political integration is required at the outset of cooperation, completely opposite to the Western European experience. This in turn requires both national and sub national actors in MDCs and LDCs to commit to compensatory and corrective measures which need to compensate for the effects of polarisation.

The politics of cost-benefit analysis therefore gives more emphasis to national and sub national actors in the integration process to produce a theoretically appropriate framework to frame integration in the developing world, based initially on economic integration, as it

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<sup>38</sup> Joseph S. Nye, (1968), '*Central American Regional Integration*', in Joseph S. Nye (ed.), *International Regionalism*, Little Brown & Co., Boston cited in R.A. Herr, (1980), *Institutional Sources of Stress in Pacific Regionalism*, University of Hawaii at Manoa, Honolulu, pp. 3-4.

<sup>39</sup> Axline, 'South Pacific Region Cooperation in Comparative Perspective: An Analytical Framework', op cit., p. 42.

can encompass negotiations over common policies in such areas as cooperation in transport, communications, services, the environment, education and security. However, factors such as the preferences of national leaders, business elites and labour, are equally important, as the extent to which they support integrative measures will influence the mixture of expansive or distributive measures adopted, depending on how far market forces are restricted under an integration scheme. Furthermore, vulnerability will also influence the agenda of regional actors and the integration process with respect to the economic, political or security affairs of external actors that have interests in the region. The relationship to redistributive measures is most cogent in the developing world, since aid, foreign investment or security support can supply an alternative to regional cooperation if there is congruence in aims between participants and external actors.<sup>40</sup> Interpreted in this way, EU development policy may be considered an important component of the calculus of opportunity costs for ACP states.

A further, and final, account of comparative regional analysis worthy of consideration in relation to assessing integrative potential is that recently produced by Walter Mattli (1999a). Mattli argues that the impetus for integration is spurred by new technologies which increase the scope of gains from wider markets. In other words, actors who seek to gain from scale economies will seek to change the governance structures of a region in order to realise these benefits.<sup>41</sup> Thus, Mattli argues for similar integrative pressures as neofunctionalism, noting the pressure of market integration to supply common rules and harmonisation.<sup>42</sup> However, while discussing demand for integration, he also introduces elite supply of integration into the equation. Deeper regional cooperation will only occur, when political leaders are willing to supply it. An example is in times of economic difficulty, the incentive to pursue more efficient regional policies for national leaders may be greater than remaining self-reliant or greater than concerns for fair redistribution of benefits to domestic interest groups, given that regional cooperation will impose certain structural changes and costs. Hence, Mattli offers a rational actor model of integration, combining several strands of political economy, including coordination games, to predict when states will favour cooperation.<sup>43</sup>

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<sup>40</sup> *ibid.*, pp.45-46.

<sup>41</sup> Mattli, *The Logic of Regional Integration, Europe and Beyond*, op cit., p. 46.

<sup>42</sup> cf. Pressure from European industrialists and market forces as an explanation for the completion of the Single European Market, as argued in Sandholtz, '1992: Recasting the European Bargain', op cit.

<sup>43</sup> Rosamond, *Theories of European Integration*, op cit.p. 184.

Moreover, Mattli's rational market model of regionalism offers several important insights for the costs and pressures associated with developing world regional cooperation. The first is that a regional 'paymaster,' or lead state, will help to lower the perceptual costs of cooperation in the life of a regional integration scheme. Another important contribution to the political economy of regional cooperation is the reaction of states outside a region to 'externalities,' or external effects of cooperation. Countries outside an integrated region may have to face discriminatory trade policies, a high external tariff or strict rules of origin rules associated with FTAs. Furthermore, a regional cooperation scheme may attract foreign investment more readily than autonomous states; especially in the case of developing countries. Lastly, regional cooperation schemes that establish regional institutions are likely to lower the cost of cooperation for states on the margins and improve market efficiency. However, such institutions could not succeed without the support of lead states to underwrite them, at least at first.

Hence, according to Mattli, regional cooperation may encourage two possible kinds of 'integrative responses.' One is for outsiders to attempt to join the integrating region. As noted, this is more likely when a performance gap occurs. If denied, because of prohibitive membership terms, or possibly where synergies exist with other outsiders, these countries may elect to pursue the second integrative response, which is to form their own 'counter-union.' Mattli contends that counter-unions do not endure because of the absence of two fundamental conditions: undisputed leadership, to direct expansive-distributional issues, and strong market pressures for integration. Especially in the case of the underdeveloped world, it might also be added that the small size of a regional economy, a distinct lack in export markets, or the potential for comparative advantage among the states in a region, because of a limited range of industrial or agricultural products, limits the logic of regional cooperation. Overall, Mattli's study is a valuable tool for understanding the integrative potential of a region, as his aim is to establish a basic driving logic behind regionalism. Mattli concludes that regional cooperation will deliver increases in welfare when important gains can be made from operating collectively, and when there is a state that can act as a focal point for regional cooperation, but only by using longevity and sustained stability as measures of success. Thus, where Axline's formula predicts possible positions member states might take in relation to certain policy packages, Mattli's propositions are more generally predictive of

the sustainability of integration schemes. Development goals would have to be substituted in the case of developing world states. Nevertheless, Axline's conclusions are still invaluable for appreciating the differences between regionalism in developed and underdeveloped states.

### **3. The Political Economy Framework Described and Appraised**

In an attempt to synthesise and simplify the discussion, the elements of the political economy approach outlined for assessing the integrative potential of underdeveloped regions of the world have been tabulated (Figure 2.3). The rows of the table list the various actors involved in the integration process. They have been differentiated by geographical relationship to the integrating region, firstly by endogenous actors, including the member states, and secondly by exogenous actors to the region. The columns of the table give the possible relationship to the process of regional integration in terms of roles and interests, and the analytical perspective, with respect to the key variables and issues outlined in the discussion that are a part of or consequence of integration in underdeveloped states, as well as the key activity of actors that can be analysed and the primary theoretical focus. The framework marries the key insights of Axline and Mattli. The key modification to Axline's cost-benefit analysis is the inclusion of rational market pressures, regional leadership and the role of externalities. This produces a political economy framework with an emphasis on process in a single case, as opposed to a broader comparative study of regionalism, which was Axline's guiding intention.

Among the many elements, the choice of integration scheme, along the continuum of limited functional cooperation, or institutionally intense regionalism as the model of regional cooperation appears to be most the important point in judging whether a region has the potential to cooperate through joint political institutions and or to construct an economic integration scheme. Unless the model adopted can comprehensively meet the development needs of the region, and share congruence with its member's policies, the scheme will be likely to stagnate. Regional organisations must therefore create, through bargaining and negotiations, packages of measures which represent the elements of expansive, distributive and dependency-reducing policies which will attract the support of all

<b>Figure 2.3:</b> <b>Political Economy Framework for Analysis of the Potential for Regional Cooperation in Underdeveloped States</b>					
	<i>Relationship to Process of Regional Cooperation</i>		<i>Analysis of Relationship to Process</i>		
Actors	Interests	Role	Activity	Theoretical Focus	Key Variables
<i>Endogenous Factors</i>					
Member States (Elite Leadership)	Increasing national benefits through regional policies (economic, functional, political...)	Direct participation, negotiation and adoption of regional policies; Provision of regional policies in response to market forces	Bargaining and negotiations, trade-offs and package deals	Perceptual conditions of regional cooperation; Distribution of perceived opportunity costs of regional policies  Model of Integration Scheme Adopted: ie. Mixture of Expansive & Distributive elements	Number of member states; Method of decision-making Foreign policy of the member states; Goal of regional cooperation is economic development, (not economic growth); Polarisation of development; Factor movements
Regional Hegemon (Paymaster)	Welfare benefits from an enlarged regional economy	Supply: Provides a pole of growth; and Economic and Political Leadership	Meets demand by underwriting most costs (demand) for cross border benefits	External effects of integration; Response of other member states and third countries outside region-group to integration	Preferences for regional distribution of benefits; Relationship with metropolitan powers
<i>Exogenous Factors</i>					
Regional Powers	Strategic concerns, ideological and economic interests, regional solidarity	Exercise of diplomatic influence on members states: aid, good governance conditionality	Regional Cooperation projects; Economic and military aid and trade, diplomacy	Influence on the benefits and costs to individual member states and to regional organisation of particular regional policies	Impact of Externalities
Global and Hemispheric Powers	Strategic concerns, retention of traditional patterns of influence, economic interests		Economic and military aid and trade, diplomacy		Impact of Externalities; Relationship to integration process: encourage; Trade and FDI advantages
Non-State Actors	Economic interests, Efficiency, welfare, migration	Direct or indirect participation and influence; May exert pressure to provide	Bargaining, negotiations, investments	Neofunctionalism; rational market forces; Regional transaction	Stakeholding in national or regional initiatives; Coalition with political elites

		common rules			
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Based on Axline, 1984, p. 48; & Mattli, 1999a, pp. 59-64.

member states to build successful regionalism in the developing world. Cooperation in functional sectors will produce less comprehensive policy packages, while economic integration will produce more comprehensive regional redistributive policies and institutions. However, as economic integration is politically intense, sectoral cooperation may be easier. Therefore, the framework suggests that where there is little incentive for neoliberal market integration, less intensive forms of cooperation may be pursued, but because of their nature, may not fulfil development goals, and consequently may deliver suboptimal policy outcomes and integrative results.

#### IV. CONCLUSIONS

Before making some final conclusions, it must be acknowledged that the propositions and theory outlined is predominantly based on work conducted in the 1970s and early 1980s, before the neoliberal age. The framework presented represents the lessons learned from the first wave of regional cooperation for development, where integration schemes failed because the Western experience of development could not be duplicated. The “new” or revived regionalism in the developing world is consequently more attuned to the relative political economy context, but it may also be crudely argued that “what goes around comes around,” or more specifically that the mindset liberal policy makers have adopted today towards regional cooperation is not significantly different from the thought of thirty years ago.<sup>44</sup> In the age of globalisation, neoliberalism, and the WTO multilateral free trade agenda, approaches to regional cooperation have returned to more traditional models of trade liberalisation, pursuit of the cost reductions from economies of scale as well as unilateral tariff reduction. The EPA negotiations are an example of this, particularly as the EU has driven the agenda towards using free trade as a mechanism for development.<sup>45</sup> Consequently, the issues raised by earlier theorists of integration in the developing world are not irrelevant to the debate on EU development policy. The perspective theorists such as Axline offer is advantageous because it can interpret the

<sup>44</sup> Peter Robson, (1993), 'The New Regionalism and Developing Countries', Journal of Common Market Studies, Vol. 31, No. 3, pp. 329-347; Robson, The Economics of International Integration, op cit., pp. 294-97.

<sup>45</sup> Commission of the European Communities, (2002), Communication to the Council and the European Parliament: Assisting Countries to Benefit from Trade, COM(2002) 513 final, 18 September, European Community, Brussels.



integrative potential of an EPA-style FTA not only from the potential economic costs or benefits it may bring to a region, but also for its political implications. As illustrated regional cooperation based on economic integration requires considerable political commitment on the part of participants since in theory only comprehensive regional policies will achieve the goal of development. Therefore, the more informal nature of FTAs and the less *dirigiste* nature of new regionalism mean that the EU agenda for EPAs as a tool of development is at odds with the realities of building strong regions to trade with in the ACP. The solutions to the problems related to the dynamic effects of economic integration require stronger institutions.

A political economy approach to regional cooperation is therefore justified, because regionalism reflects the nexus between politics and economics. A political economy approach may help to cast analysis of regional cooperation in a context removed from constant referral to the norms of theories of European integration, whose explanations of cooperation are perhaps too distinctive to Europe, where the motivation for regionalism originated from politico-security issues to provide peace and prosperity for the continent.<sup>46</sup> Political economy can also analyse regional cooperation in a context of costs and benefits in relation to regional opportunities. Most importantly, a political economy approach recognises that regional cooperation is a way for states to advance national interests and goals among developing states in general, as well as how RIAs may be initiated, expand or collapse, as numerous scholars of regional integration in the developing world have demonstrated. Hence, a political economy approach is an overall useful framework to adopt to assess integration in the Pacific because it captures the tension between the exogenous and endogenous political forces acting upon the region, as well as the economic implications of the reforms introduced under the post-Cotonou process. The lessons learned and the contribution to the theory of regional integration in the developing world is therefore instructive for the regions of the ACP as they are faced with an apparent regional free trade *fait accompli*, about which few of the implications are clear.

The task remains now to test the propositions about regional integration in the developing world empirically against the Pacific. For this purpose, the succeeding chapters will discuss the institutional experience of the region, and the extent that the region possesses

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<sup>46</sup> William Wallace, (1994), Regional Integration: The West European Experience, Brookings Institution, Washington DC, p. 9.

a collective identity and desire to cooperate regionally. This is not to mention the problem of the physical capacity to cooperate, which will be addressed separately. The next chapter, however, will look at the various ways in which the Pacific has been defined, together with the EU definition of the region, since the way the region is defined by the EU determines who is left in or out of development cooperation.

## Chapter Three

### “Pacific Dreams”

#### Defining ‘the Pacific’

*“There is a world of difference between viewing the Pacific as “islands in a far sea” and as “a sea of islands.””*

Epeli Hau’ofa (1994)

#### I. INTRODUCTION

The previous chapter was devoted to locating the post-Cotonou process in the literature of regional integration, in order to provide some criteria and concepts against which to evaluate the viability of economic integration as a strategy of development in the Pacific. Thus far, though, definition of what actually constitutes the Pacific region remains undefined. It is an important subject. The way that the region is defined will influence the policy agenda for development in the region. The argument that has been developed so far is that the EPA framework is premised by the assumptions of traditional theories of European integration. The EU has divided the ACP into six sub regions, four in Africa, as well as the Caribbean and the Pacific ACP states (Appendix Three). The essential question then is whether this EU definition of “the Pacific” accurately captures the dynamics of Pacific regionalism. The Cotonou Agreement is supposed to address the particular region-specific needs of development,<sup>1</sup> however this may be unlikely if the definition of the region ignores or excludes significant features of the ‘regional terrain.’ Hence, another purpose of this chapter will be to examine how the Pacific has been defined and for whose purpose. This should also reveal the extent to which Pacific

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<sup>1</sup> For example, “The ACP states shall determine the development principles, strategies and models of their economies and societies in all sovereignty (Article 4)”; and “Economic and trade cooperation shall take account of different needs and levels of development of the ACP countries and regions (Article 35).” Commission of the European Communities, (2000), *The Cotonou Partnership Agreement*, *The Courier*, Special Issue, September 2000, European Community, Brussels.

islanders possess a common identity, which is perhaps an implicit assumption in Brussels. It will be demonstrated that the EU employs a rationalised definition of the Pacific, which does not accurately reflect Pacific patterns of regionalism or how Pacific islanders may conceptualise the region.

To attempt to define the various dynamics of Pacific regional identity is consequently a call to engage with research and commentary from the literature on archaeology, anthropology and geography. This evidence has not yet been juxtaposed against the neoliberal EU agenda for the region. To do so, after firstly establishing the way that the EU views the Pacific, conceptualisation of regional identity will be investigated from three angles: “inside,” or early indigenous expressions of Pacific community; “outside,” documenting the influence of Western norms of civilisation on the region; and “inside-out,” illustrating how Pacific islanders in the contemporary world are adapting some of their original conceptions of the region in response to globalisation.

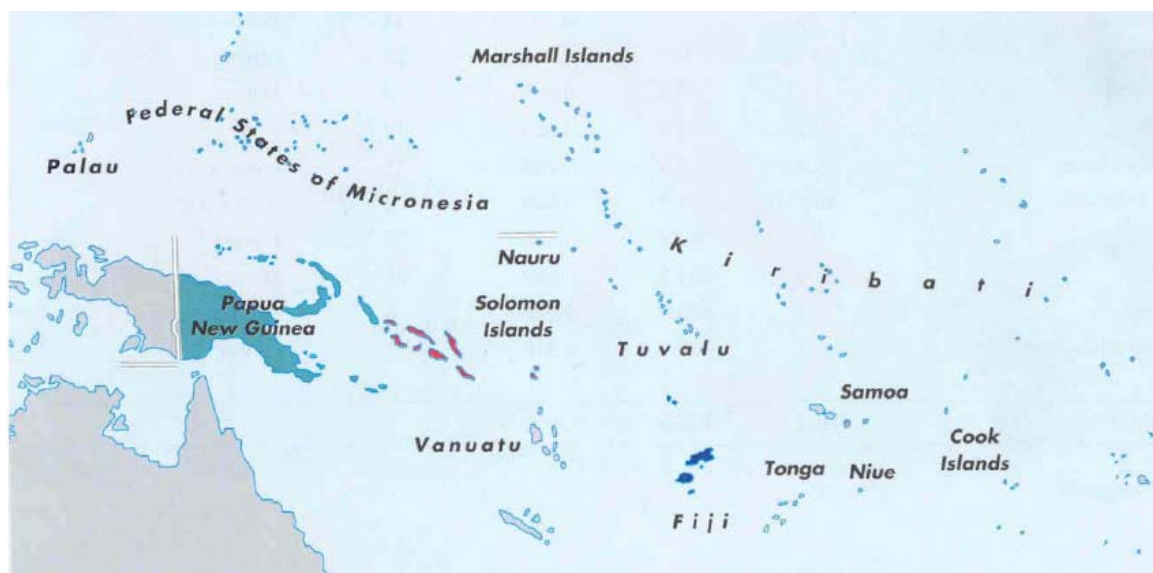
## II. THE EU DEFINITION OF THE “PACIFIC”

The “Pacific” is an imprecise term. Crocombe (2001, 17-19) has surveyed the numerous geographical vectors along which it is possible to define the Pacific. Australia and New Zealand generally refer to the Pacific as “the islands,” to the north, as far as Hawaii. Conversely, northern hemispheric partners of the region, like Europe, perceive the Pacific generally as “south” of where they are. In North America, the term Pacific more often than not bears no relation to the islands at all, and is used to describe the Asia-Pacific rim, including South East Asia, or the large countries bordering the Pacific Ocean, including Russia, China and Japan, giving the impression that a ‘doughnut hole’ – an area of emptiness – exists where the Pacific Ocean is.<sup>2</sup> There are East-West boundaries too. The South East Asian archipelago is too far removed from the ocean to be part of the Pacific. However, the Western border is less certain, because there is a history of interaction with West New Guinea and the islands, as well as the recent independence of East Timor and its quest to join the Pacific Islands Forum (PIF). More assuredly, Easter Island is the maximum extent of the Eastern boundary of the Pacific.

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<sup>2</sup> Greg Fry, (1997b), ‘Framing the Islands: Knowledge and Power in Changing Australian Images of “the South Pacific”’, *The Contemporary Pacific*, Vol. 9, No. 2, Fall, p. 305.

The EU definition of the Pacific, then, is a similar bound concept, based on the membership of the Pacific ACP group, which have traditionally been the ACP states which are signatories to the Cotonou Agreement. The membership of the PACP also corresponds to the membership of the region's premiere intergovernmental organisation, the Pacific Islands Forum (PIF) (Map 3.1). The EU recognises the Pacific Islands Forum as the primary collective political and geographic expression of the region. Previously to the Cotonou Agreement, the Pacific ACP membership had been defined exclusively in terms of associationist rationale; almost as a kind of 'add-on' thrown in along side the core ex-colonies in Africa and the Caribbean. The original eight PACP states were Fiji, Kiribati, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu and Vanuatu. The expansion of the PACP to include the Federated States of Micronesia (FSM), the Marshall Islands, Palau, Nauru, the Cook Islands and Niue in 2000 means that the PACP now includes PICs which do not have a previous associationist relationship with Europe, broadening the geographic scope and range of interests in the PACP. However, these states lack an established, or indeed the potential for, a significant trading relationship with the EU. In general, the Pacific states add comparatively little to the EU-ACP relationship (cf. Appendix Nine).



**Map 3.1: The Boundaries of the Pacific ACP Region.** Note the limited area that is covered by the PACP in relation to 22 islands territories covered by the Pacific Community. Source: (Commission of the European Communities, 2002, p. 8).

The PACP/PIF has a total population of just 7.09 million, and the enlargement of the PACP added only 226,500 more people: less than the population of the Solomon Islands. Trade volumes typically amount to less than five per cent of total imports into the Pacific and next to nothing for exports to the EU.<sup>3</sup> Although perhaps less important to Europe for these reasons, the increase in size of the PACP has reduced the imbalance in favour of Africa in the ACP, and consequently may raise the salience of particular small island states (SIS) issues on the agenda of the ACP-EU partnership, beyond the general provisions in Articles 84 and 89.<sup>4</sup> In any case, the countries which comprise the PACP are predominately South Pacific island states, which produces an artificial set of teleological boundaries for the Pacific different to those accepted in most other definitions of the region.

Complicating the definition of the PACP however, has been the accession of East Timor to the ACP in May 2003, which was classified as a PACP state.<sup>5</sup> This classification of East Timor as a “Pacific” state is unique compared to other foreign and donor definitions of the Pacific, except perhaps for the UN which deals with Asia and the Pacific as one entity. Possibly East Timor’s inclusion in the PACP illustrates that development status as much as geography determines the definition of the ACP. As a small newly independent territory, East Timor is not dissimilar in characteristics to the PICs, and can be treated similarly according to the provisions in Articles 2, 34 and 35 of Cotonou. However, with respect to constructing an FTA in the Pacific, it seems unlikely that a republic with no previous contact or affinity with the PICs, as well as possessing no capacity for trade can be a meaningful player in Pacific regional cooperation.<sup>6</sup> There appears to be no paradox in the mind of the European Commission, as it believes East Timor will be able to be

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<sup>3</sup> Commission of the European Communities, (2002), The Pacific and the European Union, Office for Official Publications of the European Communities, Luxembourg, p. 23. Also see Appendix Nine, Table A.

<sup>4</sup> Such issues include vulnerability, global warming, sustainable development as well as economic viability, commensurate with the development status and ability of these states to meet these challenges. David MacRae, (2000), An Opportunity for the New Pacific ACP Members, *The Courier*, Special Issue, September, Directorate-General for Development, Commission of the European Communities, Brussels, pp. 24-26.

<sup>5</sup> Commission of the European Communities., 'Europa: DG Development website', Vol. 2004, No. 26 January, <http://europa.eu.int/comm/development>.

<sup>6</sup> “In late 1999, about 70% of the economic infrastructure of East Timor was laid waste by Indonesian troops and anti-independence militias.” Furthermore, East Timor’s imports were valued at US \$237 million, as opposed to only \$8 million of exports in complementary goods, such as coffee and sandalwood. United States Central Intelligence Agency, National Foreign Assessment Center (U.S.), (2003), CIA World Factbook, Supt. of Docs, Washington, D.C.

fully integrated into the PACP.<sup>7</sup> The inclusion of East Timor in the PACP creates an anomaly in the regional architecture of the Pacific PCP, raising the question of whether it is geographical contiguity or shared experience which is the most important delimiter of a region.

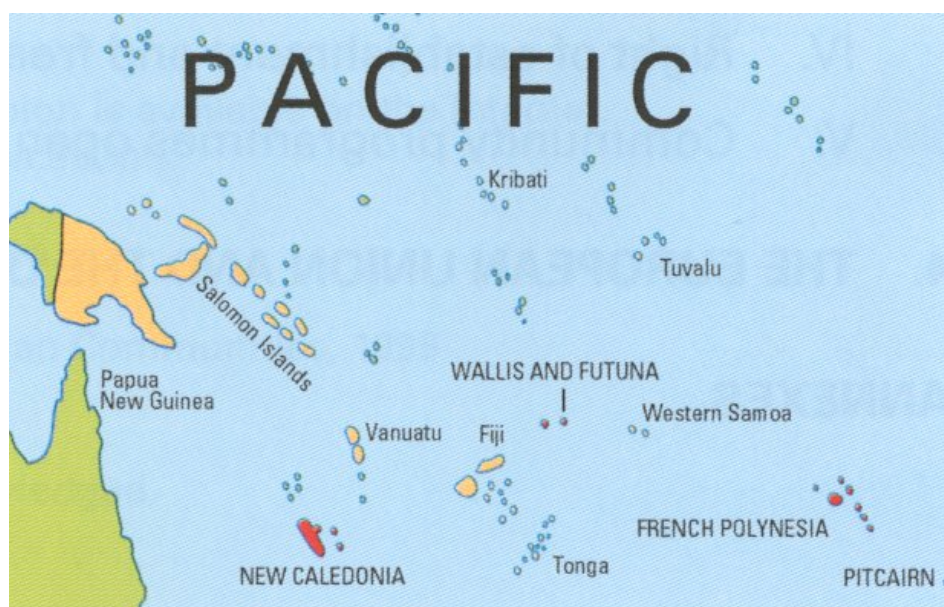
Furthermore, because of the patchwork of relationships that exist between Europe and the developing world, the Pacific development partnership still treats the two wealthiest island OCTs in the Pacific, French Polynesia and New Caledonia (Map 3.2), separately and fails to adequately acknowledge the numerous other islands, sub regional relations or regional dynamics in the Pacific, which will be discussed subsequently (cf. Appendix Six). Perhaps in recognition of some of the limitations of the PACP boundaries, *The Courier* (Commission of the European Communities, 2000) also acknowledges the Pacific Community, detailed in Chapter Five, to describe a much broader Pacific region in terms of the 22 countries and territories of the Pacific excluding New Zealand, Australia and Hawaii (Appendix One). In this way it allows the scope of aid assistance to the region to be discussed more broadly than the assistance which will be given under the Regional Indicative Programme (RIP), with funds matching from ACP and OCT programmes. Therefore, the definition of the PACP has certain logic to it, as it covers the most vulnerable states in the developing world, but its boundaries do not always complement existing Pacific regional groupings well.

Moreover, it might be surmised that the expansion of the PACP to parallel the membership of the PIF is to make economic integration efforts consistent between Forum initiatives, such as the PICTA, described in Chapter Six, and the EPA process. The PIF is the most similar integration scheme to the EU in the Pacific, because it is based on the membership of nation-states, and operates through a set of regional institutions to which authority is delegated over particular common functions. Hence, the EU chooses to deal with a definition of the region similar to its own. However, the EU definition of the South Pacific would have an observer believe that the Pacific is a homogenous unit, where the states are all more or less alike because they are by and large all small island developing states. Such taxonomy may have been acceptable under Lomé, when

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<sup>7</sup> Koos Richelle, (2003), *Statement by Mr Koos Richelle Director-General for Development, European Commission*, Fifteenth Post-Forum Dialogue Partners Meeting, Commission of European Communities, Auckland, New Zealand, p. 1.

appreciation of the Pacific as a region was less important, but since the post-Cotonou process engages political actors directly and indirectly through economic integration, in its analysis of how the region is composed, it is arguable that the European Commission needs to look beyond intergovernmental cooperation to gain a fuller appreciation of the complexion of Pacific ‘regionness,’ and therefore how the PCP can gain legitimacy among the PACP states. There is in fact a diverse range of regional identities and sub-regional integration processes at work in the Pacific.



**Map 3.2: The Pacific Overseas Countries and Territories.**

Source: Europa, DG Development website: accessed at

[http://europa.eu.int/comm/development/oct/index\\_en.htm](http://europa.eu.int/comm/development/oct/index_en.htm), 21 June 2004

### III. “INSIDE”: PRE-CONTACT THREADS OF IDENTITY

#### 1. “Islands in the Sea” or a “Sea of Islands”?

The previous section also implicitly shows that the Pacific has often been defined by Western ideas and assumptions, based on over 200 years of sustained exploration and contact.<sup>8</sup> The division of the Pacific into geographical spaces, the shape of current borders, and even some of the ‘native’ conceptualisations about traditional society, such as the nationalist *taukei* movement in Fiji, have been shaped by European contact and

<sup>8</sup> Robert C. Kiste, (1994), *'Precolonial Times'*, in K. Howe, R.C. Kiste, and B.V. Lal (eds.), *Tides of History, The Pacific Islands in the Twentieth Century*, University of Hawaii Press, Honolulu, p. 3; Kerri



colonisation. Although Pacific islanders may have seemed to inhabit small and isolated territories in the ocean, from the point of view of the first European explorers, if the perspective of the islanders themselves is considered, it may be argued that the island world was in fact larger than Europeans have considered.

The key issues here are size and space. Epeli Hau'ofa (1994) has been a vocal proponent of tackling Western paradigms of underdevelopment and dependency in the Pacific through building up a regional consciousness through the shared identity and resources that all Pacific Islanders possess in the ocean. Hau'ofa argues that Western contact has had the tendency to take island identity and island societies and belittle them, thus instilling a subordinate mindset in Pacific islanders. In fairness, Europeans did not introduce belittling tendencies into the Pacific, since Polynesian societies have operated under systems of dominance and hierarchy. Nonetheless, Hau'ofa cites cases of how missionaries condemned Oceanic cultures wholesale in the time of imperialism, as savage, lascivious and barbaric, or how Melanesians were treated as an inferior child-like people, since, for example, grown men were often called "boys." Moreover, this trend has had implications for the modern era since if islanders believe that they lack the resources or the size to combat their current position of inequality in the international system in which they now find themselves, it may influence their ability to act with relative autonomy. As fragmented, isolated islands in the sea, this may be true; but the islands may prosper if they can overcome these belittling tendencies which Hau'ofa argues they have been taught to believe.

To combat belittlement, Hau'ofa presents a revived concept of the Pacific as "Oceania," which denotes more than a set of geographical boundaries, but instead a region of people, islands and the interconnections among them. Although Te Rangi Hiroa's (Sir Peter Buck) Pacific 'fly-fish' representation of the Pacific, produced in 1938, acknowledges a symbolic Pacific message of oceanic exploration towards the East, describing Polynesians as "Vikings of the Sunrise," and celebrates South Pacific islanders' technology, courage and sense of worth, the ocean is even more central to Hau'ofa's idea of Oceania.<sup>9</sup> To Hau'ofa, the idea of smallness is relative; it depends on

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Howe, (1997), *Nature, Culture and History: The Knowing of Oceania*, University of Hawaii Press, Honolulu, p. 2.

<sup>9</sup> R. Gerard Ward, (1999), *Widening Worlds, Shrinking Worlds?: The Reshaping of Oceania*, Centre for the Contemporary Pacific, Australian National University, Canberra, pp. 2-3.

what is excluded or what is included. Those who originate from Europe or North America have tended to see a Polynesian or Micronesian island and judge it small or tiny, hence the term microstate. But the calculation is probably a misnomer, after a long tradition of outsiders misnaming the Pacific. The myths, legends and oral traditions of the Pacific Islanders show that they have not thought of their world in microscopic proportions. Their world included the ocean around them, and the sky and heavens above them. The world of early islanders was a place to explore. It was an environment where people were at home with the sea. From this affinity with the ocean, came the capacity with which to reach out towards the horizons. Boundaries came later, when colonial powers drew lines on the map, and curbed the pre-contact lines of communication of the islanders. In time before contact with Europe, extensive intra and inter-island networks were built up to trade, exchange items of wealth, marry and consequently expand social networks. In essence, the threads of island identity are contained in islanders' relationship with the ocean.

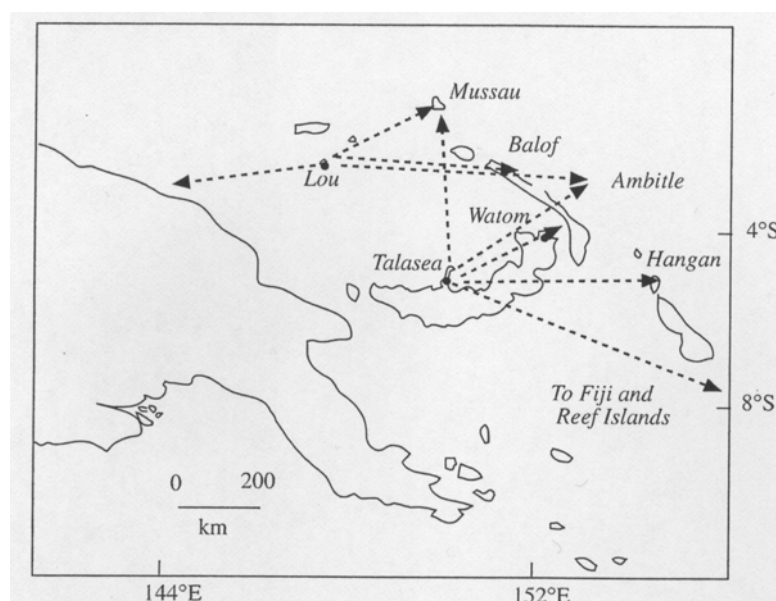
## **2. The Lapita Phenomenon and Patterns of Exchange from Pre-contact Times**

Although Hau'ofa's think-piece is romantic, and his view of Oceania is perhaps more a rhetorical device than a concrete methodology to build a Pacific identity, his claims that a common Pacific identity might be found in the shared connections and resources through a common heritage in the Pacific Ocean has antecedents in prehistory, supported by considerable archaeological and anthropological evidence. Recalling the transactionalist communitology of Deutsch, the rubric of new regionalism and the processes of regionalisation, as discussed in Chapter Two, the movement of goods, peoples and ideas are also relevant to the construction of regional identities. Pacific identity has its origins in the original population, or "peopling" of the Pacific. The lessons from the study of the migratory processes also shows how inward migration established criss-crossing patterns of exchange, or cross-regional linkages, which Pacific Islanders have drawn upon as they have defined their own style of regionalism.

The first, and the earliest, pattern of exchange is the emergence of the Lapita people, about 4,000 years ago in the late Holocene period. The Lapita were named after the particular style of ceramic pottery associated with the archaeological sites of their original civilisation, found in Near Oceania, or the present day area encompassing New Caledonia and New Britain. The Lapita period is notable because it marked the emergence within

around 500 years of a well-marked cultural horizon, which appears to have been the first to expand into Remote Oceania. From the archaeological record, it appears the Lapita spread quite rapidly from the Solomons archipelago to Fiji, Tonga and Samoa within perhaps 300 years, covering a distance of 4,000 km, since Lapita pottery has been found throughout this chain of islands.<sup>10</sup>

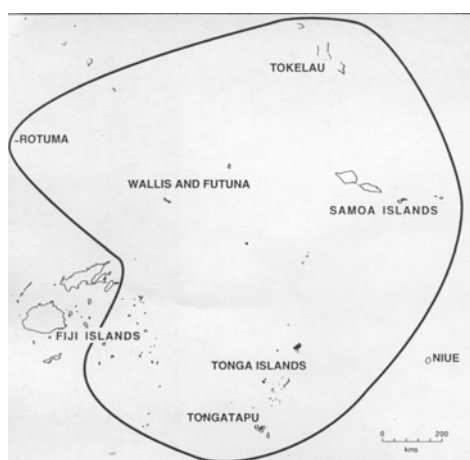
Consequently, the Lapita people pioneered a long-distance exchange network across the ocean, as there was a corresponding expansion of trade both geographically and in quantity with their appearance. Archaeologists have discovered New Britain Talasea obsidian anywhere from between 2,000 km to 3,700 km from its source in the Reef Islands and Fiji. Evidence for imports into these islands includes ceramics, chert, oven stones and stone adzes. Therefore, it is possible that the Lapita people carried out trade through direct access and local reciprocity over short distances of less than 30 km; one-stop reciprocity with groups 300-400 km distant; and lastly, 'down-the-line' exchange over greater distances. For example, within the Bismarck Archipelago, there has been interest in the changes in frequency of obsidian over time (Map 3.3).



**Map 3.3: Direction of Obsidian Exchange in the Southwest Pacific** (After Rapaport, 1999).

<sup>10</sup> Steven Roger Fischer, (2002), *A History of the Pacific Islands*, Palgrave, New York, pp. 13-19; Frank R. Thomas, (1999), 'The Precontact Period', in Moshe Rapaport (ed.), *The Pacific Islands, Environment and Society*, The Bess Press, Honolulu, pp. 122-23.

Among the islands of Remote Oceania, far less has been discovered about the intensity of interaction; but it appears nonetheless from ethnographic evidence that trade was entrenched within an intricate system of alliances, reflected primarily in the exchange of status items.<sup>11</sup> One locus of exchange was centred on Polynesia among the islands of Fiji, Samoa, Tonga, Niue, Rotuma, Tokelau, Tuvalu, Futuna and Uvea (Map 3.4). The high chiefs of Fiji, Tonga and Samoa were bound by strong kinship connections; as well as through the less benign forces of conquest and local empire. For example, the Tongan world became a mini-maritime empire, centred on the rule of the Tongan nobility before the nineteenth century.<sup>12</sup> Seafarers from Polynesia returned to Melanesia, and resettled there, while others pressed eastwards, to found similar settlements in the Cook Islands and French Polynesia. Under King Tupaia, this territory stretched from the Marquesas and Tuamotus to as far as Samoa, at the time of Cook's voyage in 1769 (Map 3.5). Others pressed into the north to the Hawaiian islands, the Carolines and Marianas, or to New Zealand in the south. Ties of blood, language and oral tradition show that although island communities were separated they were in no way isolated by the ocean. Even in the case of a multiplicity of localised communities in Melanesia, large regions of the Bismarck Archipelago were still integrated by sophisticated trading and cultural exchange systems. A highly documented case is the Kula Ring, in the Massim area of eastern Papua, where necklaces and amulets were exchanged in opposite directions around a circuit of islands (Map 3.6).<sup>13</sup> Hence, even if 'the world' was smaller to them, the ocean and the islands were apparently a hub of activity for the ocean people who lived and explored it (cf. Map 3.7).



**Map 3.4:**

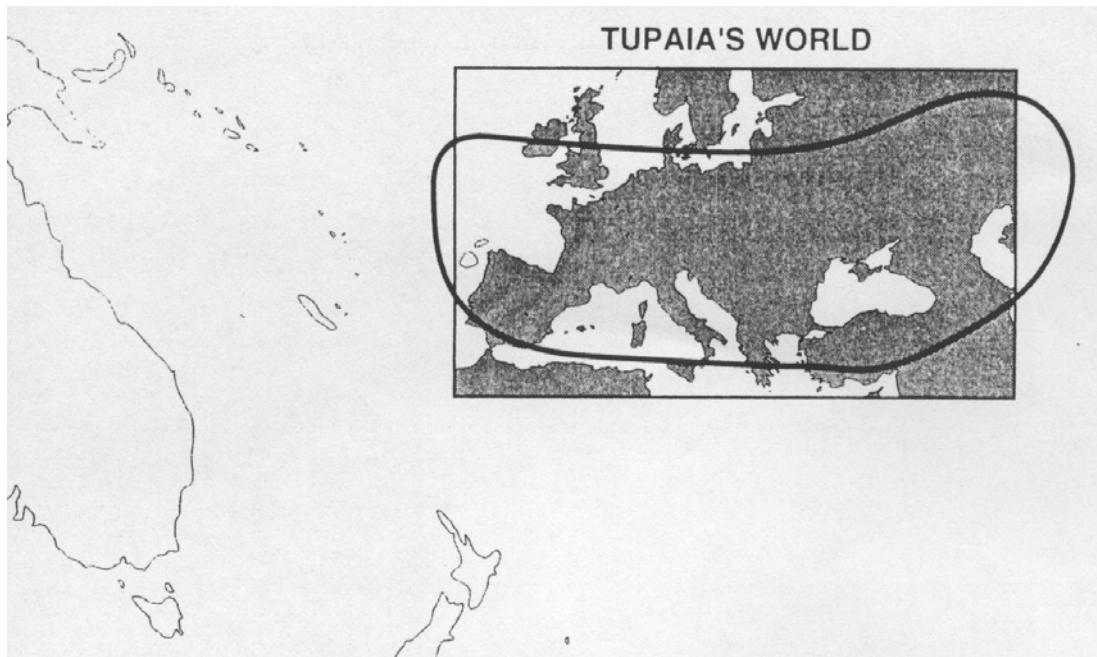
**A Sample Pre-contact Sub Region in Polynesia**

After Ward, 1999.

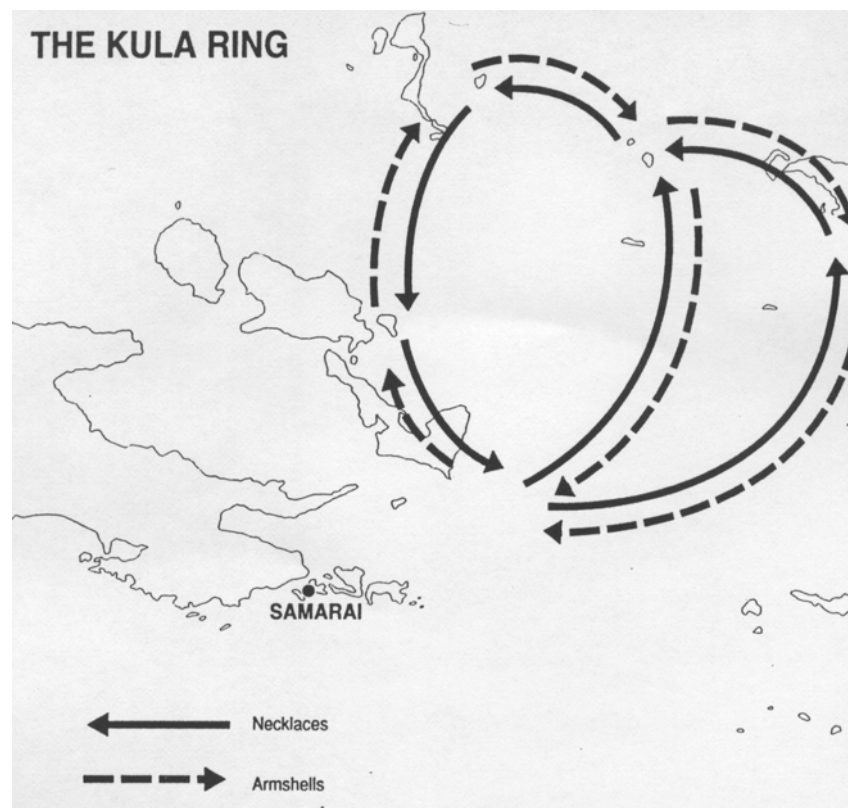
<sup>11</sup> Thomas, *The Precontact Period*, op cit., p. 125.

<sup>12</sup> Ward, *Widening Worlds, Shrinking Worlds?: The Reshaping of Oceania*, op cit., p. 13.

<sup>13</sup> *ibid.*, pp. 9-13.

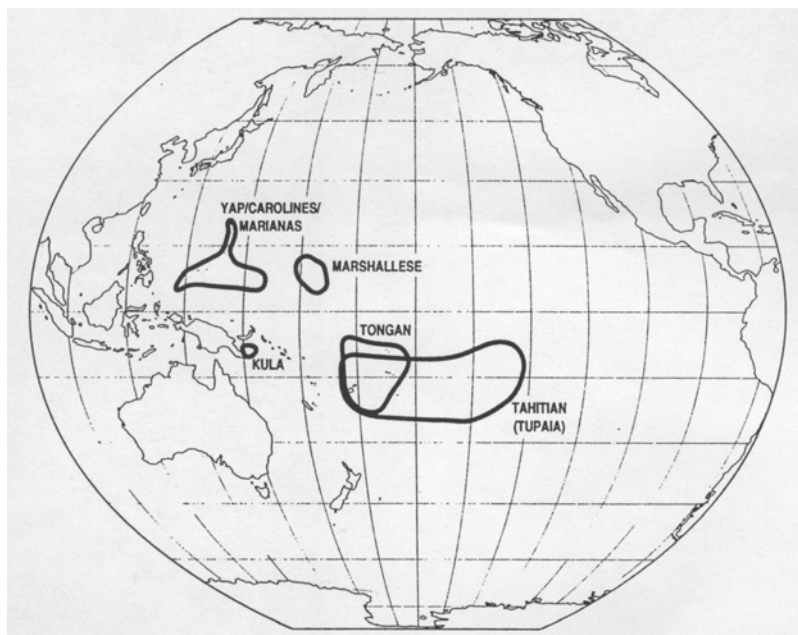


**Map 3.5: Tupaia's World.** King Tupaia of Tahiti possessed one of the largest island worlds in the Pacific. After Ward, 1999.



**Map 3.6: The Kula Ring Exchange System**

After Ward, 1999.



**Map 3.7: Oceanic Worlds – Comparative Perspective**

After Ward, 1999.

In geography, mental maps of an area are important for the way that we deal with the spatial aspects of our lives to simplify the world in which we live.<sup>14</sup> Thus, the Lapita may be considered one of the earliest founders of the Pacific world through their in-migration into Remote Oceania. As they did, they interacted with earlier migrants from the Pleistocene period. Moreover then, a series of insular, but inter-connected indigenous Pacific island communities were produced, which had the potential for shared affinity, but at the same time due to the vagaries of distance, these communities were able to develop separately into a set of autonomous, but diverse island regions.<sup>15</sup> Consequently, the evidence from the archaeological and anthropological sciences indicates that the Pacific should not be thought of as a dull, vacant region, but instead one in which contact and exchange has taken place over thousands of years. If islanders were able to maintain various kinds of cross regional connections, and had high horizons, this however begs the question of how islanders have tended to become the objects of belittlement, or ‘smallness,’ as Hau’ofa argues.

<sup>14</sup> *ibid.*, pp. 6-7.

<sup>15</sup> Thomas, *The Precontact Period*, op cit., pp. 121-24.

## IV. "OUTSIDE": REDRAWING THE MAP

### 1. Cultural Mapping

In response to this question, analysis now turns to 'cultural mapping.'<sup>16</sup> Thus, the contemporary Pacific as a region, or the islands as a collective entity, only came into being as a result of European imperialism, which located it on the world map. This is not the place to repeat the story of European colonisation of the Pacific. Excellent works, such as Campbell (1990) cover this period of history in superior detail and analysis. Suffice to say, contact began with the famous exploratory voyages of Magellan, Cook, Bougainville and d'Urville. Europe began to colour in the Pacific in its colours relatively late in the colonial rush of the nineteenth century. This can be easily recognised by the naming of individual islands: for example, New Britain, New Ireland, the Admiralty Islands, the Sandwich Islands or the Cook Islands. By 1900, the entire Pacific had fallen under the authority of the competing hegemonic powers; Britain, France, the US and Germany. However, it must also be said that division and rivalry among islanders as much as calculated imperial design for territory led to annexation. Hence, as can be recognised from the nature of pre-contact identity, islanders did not consider themselves as part of a greater regional identity, except as far as they might have seen themselves as part of a sea of islands connected by kin, trade and oceanic voyages until explorers connected them to the wider world. The age of European exploration in the eighteenth and nineteenth centuries did however produce the long-held subdivisions of the Pacific islands into the artificially constructed zones of Melanesia, Micronesia and Polynesia.

### 2. European 'Naming' of the Region

#### *(i) Dumont d'Urville and the tripartite classification:*

#### *Micronesia, Melanesia & Polynesia*

Dumont d'Urville is acknowledged as the first explorer to categorise the islands into the three regions in 1832, with a fourth, Malaysia added in to account for island South East Asia. However, d'Urville also made two racial categorisations as well. D'Urville discerned two distinct kinds of islanders, based on skin-type. Melanesians, occupying Fiji to New Guinea, were distinguished by dark skin and fuzzy hair. Polynesia and Micronesia consisted of the islands east of Fiji and New Zealand, up to Hawaii, and the islands from Palau, to the Marianas and across to Kiribati in the north, respectively.

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<sup>16</sup> Howe, *Nature, Culture and History: The Knowing of Oceania*, op cit., p. 60

Racially, they were distinct from the Melanesians because of their lighter skin colour. Although d'Urville noted variation within each region, each region was distinct enough from the others because of different physical and cultural characteristics of its inhabitants. d'Urville may have been encouraged to make such assumptions since both Polynesian and Micronesian societies tend to be more hierarchical and aristocratic in structure, with the rule of paramount chiefs and kings, similar to the world of the incoming explorers, which distinguished these peoples to the Europeans more than the Melanesians, who had developed egalitarian leadership structures, where 'big men,' or the men who held status and competed for power because of their wealth and possessions, who d'Urville likened to despots. Consequently, the islanders were ordered on a racial scale, with Melanesians at the bottom and Polynesians at the top, because of their superior political institutions, laws, organised religion and of course appearance in the eyes of Europeans.<sup>17</sup>

In the contemporary Pacific, the boundaries between these culture areas are not as precise as d'Urville imagined. The evidence cited previously in the disciplines of archaeology, linguistics and genetics showed that the colonisation of the Pacific by Austronesian speakers was rapid, but still was spread over a number of generations. Therefore, the peoples adjusted to new surroundings, intermingled with existing cultures, in the case of Melanesia and Micronesia, which meant that although each island culture had common ancestral roots, the local culture evolved at a different trajectory. Thus, as D'Arcy (2003) presents, Samoans became Samoan in Samoa, Tongans in Tonga, and so on. It follows that it is incredibly difficult to make accurate generalisations that distinguish Melanesia from Micronesia or Polynesia. Perhaps all that can be positively said is that certain traits occur with greater frequency across general geographical constructs. Hence the tripartite division of the Pacific into Micronesia, Melanesia and Polynesia has come under much attack.<sup>18</sup>

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<sup>17</sup> Paul D'Arcy, (2003), 'Cultural Divisions and Island Environments since the Time of Dumont d'Urville', The Journal of Pacific History, Vol. 38, No. 2, p. 218.

<sup>18</sup> One interesting debate is the supposed contrast of political forms of leadership, noted earlier between East and West Pacific. Marshall Sahlins (1963) had claimed that Polynesia and Melanesia were distinct cultural entities based on the two stereotypes of leadership, "big man" achieved status versus Polynesia's hierarchy of hereditary chiefdoms. However, Bronwen Douglas (1979) showed that the model was too static, since Sahlins was comparing the ideology of leadership in Polynesia with the practice of leadership in Melanesia, concluding that ascription and achievement of status are not polar opposites. Douglas also produced evidence of diversity of organisation with in Melanesia; noting that Fiji and New Caledonia are not egalitarian societies, as well as examples of less stratified forms of hereditary leadership than in Polynesia were present. See Marshall Sahlins, (1963), *Poor Man, Rich Man, Big Man, Chief: Political Types in Melanesia and Polynesia*, in Ian Hogbin & L.R. Hiatt (eds.), Readings in Australian & Pacific



Moreover, d'Urville's classifications have been adopted as modern day cultural sub regions. Melanesia equates to the Western South Pacific, occupied by the Solomons, Vanuatu, New Caledonia and Papua New Guinea, with Fiji often included. The sub region is marked by a high degree of physical, linguistic and cultural diversity. Although it contains 95 per cent habited land in the Pacific, and around three-quarters of the population within, Melanesian communities have tended to be more isolated from each other and smaller decentralised kinship societies have flourished. Nevertheless, the larger islands in Melanesia have blessed these communities with greater resources for trade. By contrast, Micronesia is made up predominantly of low-lying atolls, while Polynesian islands are most often high islands, sometimes volcanic. What is more, in general, the further one travels from West to East, the more rank and status are ascribed to centralised leadership, as a result of greater competition for land on smaller islands.<sup>19</sup> Oceania is the is now considered the largest geographical construct, used as an overarching term to include New Zealand and Australia, as well as the islands. Consequently, there is an important relationship between the environment, culture and power in Pacific societies, since the extent of isolation and resources has influenced whether power is ascribed or achieved, how resources are distributed and how communities might act across a region-space.

Nonetheless, d'Urville's categorisations indelibly shaped subsequent imperial scholarship on island identity and origins, as the age of colonisation and imperialism reinterpreted the origins of the islanders, in relation to Western culture and origins. Diffusion theories were popular until the 1950s, where it was believed Pacific islanders were possibly the descendents of Shem, one of Noah's sons, dispersed after the great flood had, who had migrated from some where in the East. The more dignified nature of Polynesian society was explained by ethnologists because of their likely origins in Eurasia. Often the islanders were lumped together as a homogenous group in these stories. Imperial historical study of the Pacific therefore served two purposes. Firstly, it told islanders who they were, where they came from and how their culture might be interpreted; often

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*Anthropology*, Melbourne University Press, Melbourne; & Bronwen Douglas, (1979), 'Rank, Power and Authority', *The Journal of Pacific History*, Vol. 14.

<sup>19</sup> Michael Charles Howard, and Simone Durutalo, (1987), *The Political Economy of the South Pacific to 1945*, Centre for Southeast Asian Studies, James Cook University of North Queensland, Townsville, Queensland, p. 8 & 20 and Kiste, *'Precolonial Times'*, p. 11.

informing them that their current condition was a degenerate version of what they had once been. It also appears that the Pacific was studied intensively for the sake of knowledge itself, as a kind of voyage of self-discovery, or defining oneself through examination of the habits, laws and customs of the “Other.”<sup>20</sup> Ultimately, though, this rendering of the islanders was used to justify European colonial annexation.

*(ii) The influence of “Nature” on cultural interpretations of the Pacific*

Brief mention must also be made of how the Western mind has defined the Pacific with respect to the relationship between nature and culture, as argued vigorously by Howe (1997). In the first era of European exploration of the Pacific, the notion of “paradise” was attached to the concept of the tropical oceanic island. Islands lent themselves well to the imagination in this respect, since they “engendered notions of the fantastic and the inversion of values.”<sup>21</sup> The reports of the eighteenth century explorers and literary inventions such as Defoe’s *Robinson Crusoe*, created a psychological space in the Western mind, offering the promise of safety, destiny, travel and adventure in an environment without the trappings of regimented industrial civilisation. Consequently, when Banks and Bougainville related tales of an earthly Pacific paradise and the noble savage – the “Tahitian mirage” – Howe argues that this was a rerun of a very old Western theme.<sup>22</sup>

From that point on, the Western perception of the Pacific is the story of how paradise was lost, or the loss of innocence and destruction of island cultures. However, as the European agenda for the Pacific changed under imperial expansion, the islanders became the untamed ‘Other.’ The noble savage became the brute savage. These ideas were solidified in the European consciousness, by the privations and stress of missionaries, and the rough dislocated and desolate reality of life in the islands expressed through the

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<sup>20</sup> D’Arcy, ‘Cultural Divisions and Island Environments since the Time of Dumont d’Urville’, op cit., pp. 218-221.

<sup>21</sup> Howe, *Nature, Culture and History: The Knowing of Oceania*, op cit., p. 11.

<sup>22</sup> From the Cook voyages comes this account from his botanist, Banks:

We walked for 4 or 5 miles under groves of Cocoa nut and bread fruit trees loaded with a profusion of fruit and giving the most grateful shade I have ever experienced, under these were the habitations of the people most of them without walls: in short the scene we saw was the truest picture of an arcadia of which we were going to be kings that the imagination can form...scarcely can it be said that they earn their bread with the sweat of their brow when their chiefest sustenance Bread fruit is procured with no more trouble than that of climbing a tree and pulling it down.”

Conradian literature of the day that described the ruination of the white man as they were affected by their environment; in some cases going native.

“Oceania was thus a wretched place, characterised by danger, poor living conditions, sickness, tropical torpor, degeneration, and sometimes death for white men...these views, unfashionable as they are now, were predominant for well over a hundred years.”

(Howe, 1997, p. 19)

This perhaps indicates, as Howe argues, that paradise was never actually there to lose. Yet, the contemporary Pacific is still portrayed as a sensuous island paradise. Howe believes this is explained by changing appreciation of the power of nature over humans and subsequent Western adaptation to the harsh island environment. Technological advancement and colonisation had the affect of taming the brutal Pacific environment, making it a subservient and safe region again to explore. As a result, the exotic elements of island life have been romanticised again, mainly by the tourist industry, to lure foreigners back into an island paradise. To put it more succinctly, Western European representations of islanders have varied according to the reformulation of nature to meet changing expectations and requirements of Western culture, and have preserved the notion that islanders are a happy people who live in a tropical island paradise.

### **3. Contemporary implications of European contact for islander identity**

Consequently, European naming and subsequent academic study of the Pacific has created a series pseudo-identities for Pacific islanders. While not entirely accurate, they have become entrenched in common use. For instance, Melanesian leaders have advanced the expression, “the Melanesian Way,” promoted by PNG lawyer, writer and politician, Bernard Narokobi, as a way to foster an identity for their new nations differentiated from colonialism in the era of independence. Interestingly, the Melanesian Way pays homage to traditional custom as well as claiming Christianity as its own. Despite its European origins, Christianity is still a powerful transnational force, as much because the church was the only learned institution permitted by nervous colonial administrators which could educate and foster independence leaders, as for its

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Joseph Banks in Beaglehole, J.C., Ed., (1962), *The "Endeavour" Journal of Joseph Banks 1768-1771*, Angus and Robertson, Sydney, p. 252 & 342, cited in Howe, *Nature, Culture and History: The Knowing of Oceania*, op cit., p. 7.

principles.<sup>23</sup> As a result, many Melanesian nationalists originated from the church. The Melanesian Spearhead Group is another advanced expression of empowerment across the sub-regional level, based upon trade liberalisation, another concept of identity introduced from a foreign source.

Furthermore, in 1970, Ratu Sir Kamisese Mara, the most influential Pacific island political leader in the age of independence, first advanced a common Pacific island identity around the slogan, “The Pacific Way,” which in essence describes common values and consensus and incrementalism, is defined in reaction against Western ways of conducting political decision-making and diplomacy. Accurate or not, the phrase remains in usage.<sup>24</sup> The influence of missionaries in the training and commissioning of Pacific islander evangelists in the 1800s from Polynesia was also significant in fostering regional connections through the entrenchment of Christian values in island culture and politics, as they ventured Melanesia.<sup>25</sup> Less pleasant, but an equally valid method of regional interaction was ‘blackbirding,’ or the indentured labour trade from Melanesia to plantations in Queensland, which was at its peak in the 1860s, affecting more than 100,000 Melanesians, drawing together people from dispersed communities into a collective.<sup>26</sup>

To summarise, the Western world has been responsible for defining the Pacific specifically as a region through the various forces of exploration and colonisation. Furthermore, European sub-regional constructs have become part of the vocabulary of Pacific studies since the late nineteenth century, and have become so ingrained that islanders have come to adopt these constructs for their own regional political purposes. In short, the very mapping of the Pacific has placed a European template on the island world.<sup>27</sup> Perhaps the most important observation to note at this point is that European naming and division of the Pacific has reinforced the island nation and also particularly

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<sup>23</sup> Douglas, Bronwen, (2000), Weak States and Other Nationalisms: Emerging Melanesian Paradigms?, State, Society and Governance in Melanesia Discussion Paper 00/03, Research School of Pacific and Asian Studies, Australia National University, Canberra, pp. 4-5.

<sup>24</sup> Michael Haas, (1989), The Pacific Way: Regional Cooperation in the South Pacific, Praeger, New York, p. 13; Ron G. Crocombe, (2001), The South Pacific, Institute of Pacific Studies, University of the South Pacific, Suva, p. 157.

<sup>25</sup> Ian C. Campbell, (1990), A History of the Pacific Islands, University of Canterbury Press, Christchurch, New Zealand, p. 116f.

<sup>26</sup> *ibid.*, p. 115.

<sup>27</sup> Kiste, *'Precolonial Times'*, *op cit.*, p. 4.

the sub region as the salient units of regional interaction. Furthermore, Western contact has contributed to revitalisation of 'traditional' identities.

## **V. "INSIDE-OUT": ISLANDER IDENTITY IN A GLOBALISED WORLD**

### **1. Regional Identity: a Response to Western Influences**

Another conclusion that might be drawn about the influence of Western contact on the islands is that by bringing them into contact with the wider world, they have been forced to articulate regional interests and build a regional consciousness. Until the 1940s, the indigenous population was still only recognised in the world by the romantic, but vague term, the "South Seas." The more accurate contemporary term "South Pacific" only came into use after the Second World War, and remained in currency throughout the Cold War, as strategic definition of the region. However, as the twenty-first century progresses, the term "Pacific Islands Region," or variations of it, is being used more assertively, as the old colonial and Cold War powers lose interest in the region. The renaming of the South Pacific Forum to the Pacific Islands Forum in 2000 acknowledged the growing autonomy of the region distinct from the metropol.<sup>28</sup> More poignantly, though, as the modern day PICs are no longer needed as much by outsiders they are now being told by donors and neighbours to adopt neo-liberal reform.<sup>29</sup> Thus, even in the age of island independence, it is arguable that even expressions of Pacific identity generated by islanders are devised to reflect the agenda of Western global imperatives, and thus are represent another way of managing island life from beyond the Pacific.

### **2. Invented Tradition in the Contemporary Pacific**

The first issue is that raised by the dichotomy between "traditional" and "Western culture." Islanders have created pasts, myths of ancestral ways of life to use as political symbols in a bid to build national identities in response to decolonisation and independence. However, rhetorical tradition may not bear much resemblance to the real past, documented ethnographically or archaeologically. Examples of where "invented tradition" has been used include the Melanesian Way or the Pacific Way, introduced earlier; traditional leadership structures, such as chiefdoms in Melanesia. One of the best

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<sup>28</sup> Epeli Hau'ofa, (ed.), (1998), 'The Ocean in Us', The Contemporary Pacific, Vol. 10, No. 2, Fall, pp. 395-97.

examples of invented culture being accepted as tradition remains Fiji's chiefdom. The Great Council of Chiefs was created by a deal between the British colonial rulers and the Fijian chiefs to codify the power of the Fijian aristocracy, in return for the transformation of land tenure into a commodity. The protection of traditional Fijian culture for those who benefited from colonial reorganisation has been driving issues behind Fiji's numerous coups and subsequent constitutional reform. New Caledonia and Hawaii have also pursued political demands based on a shared idealised pre-colonial past. The University of the South Pacific (USP) although based on the notion of a pan-Pacific society, has been described as a hatchery for regional identity.

Roger Keesing (1989) argued in an influential article that the formation of counter-colonial identities in the new nations of the Pacific could be described through Gramscian analysis, which hypothesises that the counter-hegemonic discourse pervasively incorporates the structures and premises of the hegemonic discourse. Thus, in the Pacific, islanders have drawn upon elements of their authentic past, and accentuated them to differentiate themselves more strikingly from the culture of their colonisers, such that objects and rituals metonymically represent the whole of culture, representing an island variety of essentialism.<sup>30</sup> The past tends to be simplified in comparison to the rich interactive world of regional identities it is argued were present before European contact. This phenomenon is not restricted to the present, as the pre-colonial Pacific world described by the ethnographers was not static, as they experienced the same region-wide political expansions and contractions, and whose leaders would invent or utilise symbols and cosmic genealogies to reinforce or legitimate their power. The essential contribution of Gramscian analysis is to illustrate that national or regional identities are both invented concepts, grounded in reaction to Western culture, colonialism and independence, as islanders attempt to build grounds upon which to define them apart from the outside world. What is more, these more modern expressions of identity therefore marry culture for a particular political purpose, and do little to contribute what it actually means to be a Pacific islander.

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<sup>29</sup> William Sutherland, (2000), 'Global Imperatives and Economic Reform in the Pacific Island States', *Development and Change*, Vol. 31, No. 2, March, pp. 459-480.

<sup>30</sup> Roger M. Keesing, (1989), 'Creating the Past: Custom and Identity in the Contemporary Pacific', *The Contemporary Pacific*, Vol. 1, No. 1-2, Spring & Fall, pp. 19-42.

### 3. Who is the Pacific for? Reform and Continuing Western Rendering of Islanders

In closing, the Cotonou Agreement, the impetus for liberalisation within the PIF, as well as the forecasts of Australian research, predicting a neo-Malthusian ‘doomsday’ scenario for the Pacific islands,<sup>31</sup> demonstrates that the Pacific is still being defined through Western discourses of development. This time the formula emphasises liberalisation, multilateralism and integration. ‘Doomsdayists’ argue that the region will fail to become part of the era of prosperity – the “Pacific Century” – according to small and unstable growth in GDP, unsustainable population growth and risk of marginalisation in the global trading order. These definitions, or frames, of the region have been given legitimacy by the authority of high profile research conducted in the early 1990s by the National Centre for Development Studies of Australian National University. The regional and hemispheric powers therefore take it upon themselves to define the interests and agenda for the region, or as Fry (1997b) argues, they take it upon them to show islanders that they are falling behind, and make it clear that nothing short of compliance with foreign development imperatives will avoid the predicted calamities. Consequently, the frame which contemporary Westerners are applying to the Pacific, may, as Fry argues represent only a superficial departure from the process of belittlement and smallness that Hau’ofa argues islanders have been taught to accept.<sup>32</sup> The Australian government, in particular, has been vocal in framing islanders in relation to neoliberal reform since 1994, as a way of managing island identity.

In a similar fashion, through the Cotonou Agreement, the EU shapes the policy agenda of a patchwork of Pacific states according to a neoliberal agenda. Such strategies operate on the assumption that the Pacific region can be dealt with as a cohesive unit. The previous arguments illustrate that islanders do not have significant natural tendencies of identification at the regional level, to which these solutions are proposed for implementation, as the sub region is more salient. Consequently, it is arguable the reform agenda of the new development orthodoxy, of which the PCP is a part of, may be setting

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<sup>31</sup> Rowan Callick, (1993), *Pacific 2010: A Doomsday Scenario?* in R.V. Cole (ed.), *Pacific 2010: Challenging the Future*, National Centre for Development Studies Research School of Pacific Studies Australian National University, Canberra.

<sup>32</sup> Fry, ‘Framing the Islands: Knowledge and Power in Changing Australian Images of “the South Pacific”’, *op cit.*, p. 309.

islanders up for suboptimal development policy outcomes not of their own making,<sup>33</sup> as regional programmes may not be able to coalesce around a strong regional will or identity that place the onus on the Pacific to conduct deeper integration. In essence, the new development orthodoxy divorces the Pacific culture from its definition of the region, and does not offer solutions beyond the rhetoric of the standard parameters of regional economic cooperation and institution-building. In a broader sense, region-wide integration is a phenomenon which lacks legitimacy, as it has been a process defined by global imperatives, rather than Pacific imperatives. In order to address this deficit, the Pacific post-Cotonou negotiations must appreciate the ways Pacific islanders define their region, so that integration works in ways which benefit them, at the grassroots. If not, the Pacific is in danger of being defined for the purposes of those outside of the region, rather than regionalism existing as a strategy for progress owned by islanders.

## VI. CONCLUSIONS

As the previous analysis has demonstrated, the EU definition of the Pacific is an artificial construct. Although the PACP group brings together a number of Pacific island states, the EU definition omits significant regional partners of the PACP states. As will be illustrated in later chapters this has significant implications for the scope and pace of integration for the PACP states, as various overlapping regional linkages challenge the negotiation and implementation of a Pacific EPA. Moreover, the EU definition of the Pacific assumes that the PACP region is a natural region for a shared identity. However, investigation of how identities have formed in the Pacific shows that in both the pre-contact and post-colonial eras, the sub region has in fact been the more natural unit of regional cooperation in the Pacific. This is due to the diverse range of peoples and societies that are represented throughout the Pacific, and the way that the region was populated and how exchange networks subsequently formed, which is in contrast to the EU perception, or ambition, that the Pacific may be treated as a single unit. Moreover, this misperception illustrates how the West has tended to create a 'Pacific Order' onto which it projects its priorities and assumes its expectations will be met.

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<sup>33</sup> Greg Fry, (1994), 'Climbing Back onto the Map? The South Pacific Forum and the New Development Orthodoxy', *Journal of Pacific History (Bibliography)*, Vol. 32, No. 3, pp. 64-72; & Fry, 'Framing the Islands: Knowledge and Power in Changing Australian Images of "the South Pacific"', *op cit.*, p. 306.



Furthermore, the potential for a contemporary regional identity has been weakened due to the legacy of European contact and colonisation, as this stimulated the formation of stronger sub regional and national identities, and has contributed to the absence of a tendency for islanders to think of themselves as Pacific islanders. Consequently, as islanders begin to think of themselves more as a region in the early twenty-first century, the best attempt at a common indigenous identity for islanders is perhaps their affinity and shared interest in the ocean, as it is apparent that all other significant definitions of the Pacific are inspired from beyond the region. In general, though, the capacity for a common Pacific identity is weak, since there has never been a strong commitment to identify with other Pacific communities at this level.

This point perhaps suggests one other important concluding observation. In the absence of a strong common identity or regional interest, the Pacific is often defined beyond the region in response to the question, “whose region, for which purpose?” For the EU, it is for the purposes of political partnership and an economic development agenda. Consequently, the PIF structure represents a neat identity with which to construct a region-to-region trade partnership. In summary, the EU neglects the strong sub regional elements of islander identity and the important connections across the ocean which offers more insight into commonality among the Pacific islands. The Community’s regional approach to development cooperation simplifies the world. In some ways, the EU continues a strong tradition of European naming, and misnaming, of the Pacific. The nature and state of the political economy of Pacific regional integration has also been influenced by this disparate, fragmented regional complexion, which will form the focus of Chapter Five. Prior to this, though, the next chapter will consider the conceptual arguments for how the capacity for regional integration may be measured in the Pacific, as the integration process proceeds.

## Chapter Four

### Is an Island an 'Island'?

#### Approaches to "Capacity Building" in the Pacific:

##### I. INTRODUCTION

The previous chapter established the various forms of inter-connectedness in the Pacific that have influenced the formation of regional and sub-regional identities. Although a number of sub-regional identities were created in the Pacific because of the physical distance between the island groups, patterns of exchange across the ocean nonetheless illustrated that island communities possessed the ability to maintain cross-regional contact through such processes of regionalisation as trade, migration, exploration, evangelical mission and conquest. Hence, it is a misconception to believe that because the Pacific islands are small that they are isolated from each other. However, in the post-industrial age, the PICs are posed with new challenges of maintaining interconnection presented by globalisation. Simultaneously, the PICs are faced with complex problems at several levels. As a first example, the Cotonou Agreement calls upon PICs to participate in trade negotiations with the EU and in the WTO. Bilateral relations with PIC's regional partners in Australia, New Zealand and the United States also have to be maintained. This is not to mention the significant regional development targets PICs have set themselves through the Pacific Islands Forum, in particular the ongoing trade negotiations regarding the PICTA and PACER agreements. All of these issues combined mean that the scarce resources of PICs are being pushed to the limit by policies to implement sustainable development and liberalise trade. It is little surprise then that globalisation has been identified as the overarching challenge facing the Pacific by the EU.<sup>1</sup> Hence, the challenge of interaction with the rest of the world is qualitatively different for societies where the physical and institutional infrastructure lacks the capacity to deal with the demands of regionalisation, even if a strong regional identity or will for integration is present. It is this broader issue of

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<sup>1</sup> Commission of the European Communities, (2002), Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007, European Community, Brussels, p. 5.

technical capacity to act as an integrated region which will form the focus of this chapter. It is intended to sketch out some of the approaches to measuring capacity in relation to the particular problems of capacity building in the Pacific. The questions which it is concerned with relate to how capacity building might be defined and measured in a developing region like the Pacific. This is important to a study of the challenges of the Cotonou Agreement to the Pacific because development by free trade through regional integration cannot be a useful strategy if there are doubts that the region can support regionalisation processes and the infrastructure of cooperation associated with the political economy of economic integration schemes.

## II. THE ELUSIVE CONCEPT OF “CAPACITY BUILDING”

### 1. What is Capacity Building?

Although there has been much discussion of the concept of capacity building, neither the academic literature nor the assistance programmes that target capacity building have come to a consensus about what the term means. It still has a very fluid definition. The term became popular in response to widely acknowledged shortcomings of development assistance among donors. It was conceded that “technical assistance” programmes had produced limited sustainable impact in priority areas such as poverty reduction because they were essentially ready-made, or “off the shelf” package solutions to development problems, because they focused on solutions that concentrated on compliance with rules on trade, instead of addressing the longer term contextual issues of sustainable development.<sup>2</sup> “Technical cooperation” in the 1980s was a first attempt to address the problem, but it lost favour to the term “capacity building,” as it implies that the beneficiary of assistance is involved, or ‘owns’ the process, in partnership with the donor.<sup>3</sup> Hence, capacity could be narrowly defined as the individual ability or competence to carry out a specific task. For example, such strategies may require farmers to adjust their methods to the latest agricultural standards, or to improve the ability of governmental officials to participate in trade negotiations. However, this limited view of capacity does not cover the broader policy context, which would include enhancing the opportunities for individual skills to be expanded and that these abilities are acquired over time.

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<sup>2</sup> Cf. On sustainable development within a Pacific context, see John Overton and Regina Scheyvens, (eds.), (1999), Strategies for Sustainable Development: Experiences from the South Pacific, Zed Books, London & New York, pp. 2-10.

<sup>3</sup> Stefan Szepesi, (2003), Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, Masters Thesis, Maastricht University, p. 57.

One definition constructed along these lines is the United Nations Development Programme (UNDP) description, which removes actors entirely, to address performance, or the “ability to perform functions, solve problems and set and achieve objectives.”<sup>4</sup> Consequently, this description reveals that capacity building is also a process that is measured in degrees, as capacity building projects refer to the conditions and acquisition of necessary resources to be able to develop abilities to act. Hence a good working definition of capacity building refers to the approaches, strategies or methodologies used by a developing country or external partners to improve performance at the individual, organisational or sector level.<sup>5</sup>

However, even if the ‘what’ and the ‘how’ of capacity building have been clarified, there are other questions of substance that remain unanswered about the concept. One is ‘whose capacity’ is to be enhanced, and for what specific function. Furthermore, capacity building is unlikely to be a linear process, even if a specific purpose is defined for a project. Capacity building is likely to imply adaptation and learning, and a willingness to be flexible on the behalf of stakeholders in the process of development. Therefore, the principles of capacity building require primarily broad-based participation and a locally owned and driven policy agenda that builds upon existing and new capacity, long-term investment, and integration of activities across various systemic levels within a country or region in order to address complex problems effectively. Consequently, a framework for conceptualising capacity building must also include such dimensions as the individual, organisational levels, as well as the ‘enabling’ environments, including investment, networks or sectors, and the legislative arena.<sup>6</sup> Each of these represent the most important actors in delivering comprehensive and sustained capacity building programmes, and takes account of the key stakeholders who will be involved in the process.

Capacity development strategies may therefore entail enhancement of old capacity or the creation of new capacity. This may mean removing outmoded or illegitimate institutions; improving networks and systems of incentives for organisations and investment; providing opportunities for the private sector of Non-Governmental Organisations (NGO) to use

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<sup>4</sup> Yemile Mizrahi, (2004), *Capacity Enhancement Indicators, Review of the Literature*, World Bank Institute Working Papers, World Bank Institute, The International Bank for Reconstruction and Development/The World Bank, p. 2.

<sup>5</sup> Joe Bolger, (2000), ‘Capacity Development: Why, What and How’, *Capacity Development Occasional Series*, Vol. 1, No. 1, May, Canadian Institute of Development Assistance, p. 2.

capacity creatively, as entrepreneurs of development, or creating new for a for bring stakeholders together, such as coordinating councils. However, the approaches adopted should still fundamentally be led by developing countries. Internally, this requires DCs to identify capacity gaps; achieve consensus on a strategy and projects; and ensure ongoing support and consultation will occur.<sup>7</sup> In conjunction with external donors, DCs need to be involved in setting the agenda and coordinating the distribution of resources. Therefore, the key implication for external partners is that they will in theory not define the local capacity building programme, as occurred in the earlier era of technical assistance. Partnership is the nature of joint North-South capacity building processes.

## **2. Measuring Capacity Building**

Nevertheless, although the literature on capacity building reflects a paradigm shift towards partnership with local initiatives, a significant gap remains in how to actually measure the capacity building process, beyond the input and output stages of the process. This is because it is easier to identify and quantify the results of capacity building than it is to measure the process while it is unfolding. Furthermore, to measure whether a standard has been reached may require a subjective judgement, on perhaps incomplete information. It is also less glamorous to develop indicators to measure capacity building than final outcomes.<sup>8</sup> However, because capacity building is a non-linear process, and successful performance may be uneven across the dimensions identified, it is necessary to address this gap in the understanding of the capacity building process.

In the absence of specific objectives within the individual elements of capacity, it is difficult to monitor capacity building. Thus capacity building indicators have operational value when they are addressed to concrete objectives and the actors involved. In order to build reliable indicators, then, the significance of the questions of ‘capacity for what?’ and ‘for whom?’ assume importance. Nevertheless, consensus, political will and commitment on the part of recipients of assistance is also necessary to understand the extent to which a country or region has developed a sense of ownership and responsibility.

Thus, in order to build up a reliable set of indicators, capacity needs to be disaggregated, as done previously by targeting analysis at various systemic levels. Morgan (1997) identifies

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<sup>6</sup> *ibid.*, pp. 3-4.

<sup>7</sup> *ibid.*, pp. 5-6.

<sup>8</sup> Mizrahi, *Capacity Enhancement Indicators, Review of the Literature*, op cit., p. 4.

several ‘boiler plate’ principles which might be used, targeted particularly at the organisational level. These have been modified here to lay the foundation for some indicators of how technical capacity might be measured in the Pacific. Firstly, can an organisation learn and adapt to changing circumstances – does it have self-renewing capacity? Secondly, are relationships forged among the various actors in the process? Is the capacity building process legitimate, and can objectives be identified and managed over time? Finally, do organisations and individuals have a culture that motivates and rewards performance?<sup>9</sup> As abstract elements, these can be more specifically adapted to concrete programmes and development goals, and incorporate analysis of each dimension of capacity building. With reference to the dynamic element of capacity building, that capacity should be measured over time, it is also suggested that overall goals need to be disaggregated into firstly immediate goals, for example improving methodologies or institutions, and then introducing possibly a series of intermediate policies that build towards the end goal. With these considerations in mind, analysis turns to two key issues of how capacity to act as a region in the Pacific is extremely important to enhance the region’s ability to meet the challenges posed by globalisation and the Cotonou Agreement: trade facilitation and regional information and communications policy.

### **III. PACIFIC CAPACITY FOR REGIONAL INTEGRATION: GAPS, SOLUTIONS AND MEASURING CAPACITY BUILDING IN THE REGION**

#### **1. Regional Trade Capacity Building: Trade Facilitation Programmes**

The elements of the Cotonou Agreement which speak directly to capacity building, in relation to the two issues of trade facilitation and communications policy are Articles 33 and 43. Article 33 acknowledges the multidimensional aspects of the process of capacity building. For example in Article 33.1, “cooperation shall pay systematic attention to institutional aspects (and) shall support the efforts of the ACP states to develop and strengthen structures, institutions and procedures”; and in Article 33.4, “Cooperation shall also assist to restore and/or enhance critical public sector capacity and to support institutions needed to underpin a market economy.” Article 33.4 also goes further to pinpoint capacity enhancement in legal and regulatory matters, research and analysis of policy and to strengthen and reform financial institutions and procedures, to create a stable

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<sup>9</sup> *ibid.*, pp. 9-16.

environment for investment. The provision for trade facilitation is general, to be negotiated at the region-to-region level, stating a desire to develop “capacity in other critical areas such as: international negotiations; and management and coordination of external aid.”<sup>10</sup> Article 43 deals with the role of information and communications technology (ICT) in development and integration:

“The Parties recognise the important role of information and communications technologies, as well as the active participation in the Information Society, as a pre-requisite for the successful integration of the ACP countries into the world economy...the Parties will therefore take measures that will enable inhabitants of ACP countries easy access to ICTs...”

Article 43.1 & 43.4 (Commission of the European Communities, 2000, p. 28)

Hence, Article 43 recognises the crucial role of ICT in bridging the divide between North and South in the context of closer integration, and facilitating regionalisation processes within the ACP regions.

Therefore, the regional strategy adopted between the EU and the PACP states will attempt to enhance capacity in these areas. Given the emphasis of developing economic integration processes in the Pacific by the EU to facilitate a region-to-region partnership, the EU in its Pacific Regional Response Strategy intends to commit 31%, or €million, of the Regional Indicative Programme (RIP) to support regional economic integration. The PICTA and PACER agreement processes will be the main beneficiaries, as they will be the vehicle upon which a Pacific EPA can be based. The main areas include Trade Related Technical Assistance and specific financial assistance, across all 14 PACP/FICs. Therefore the assistance will take shape in the form of legislative and fiscal reform; awareness campaigns for government, private sector and NGOs, implementation of tariff reductions and negative lists; quarantine and customs harmonisation; studies in government procurement, and, looking to the future, how regional trade in goods might be expanded to trade in services and implications for competition policy. Human Resource Development is a second focal sector, receiving €8 million, to enhance educational and vocational opportunities, and review of training schemes so that skills developed match employment requirements, expressed in the Forum Basic Education Action Plan.<sup>11</sup> This

<sup>10</sup> Commission of the European Communities, (2000), The Cotonou Partnership Agreement, *The Courier*, Special Issue, September 2000, European Community, Brussels, p. 24.

<sup>11</sup> Commission of the European Communities, Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007, op cit., pp. 33-34.

plan would help to increase the potential for other economic sectors to develop in the future, outside the boom in the government bureaucracy described by the MIRAB model referred to in chapter six,<sup>12</sup> but will require stimulation as well from implementation of integration assistance.

These processes are already underway, with swift release of funds to all of the PACP states, the Forum and the Council of Regional Organisations in the Pacific (CROP) which manages specific capacity building projects with EU funding. EU Development Commissioner, Poul Nielsen, personally signed off, in Suva on 6 February 2004, the Regional Economic Integration Programme (REIP), to be implemented by the Forum Secretariat, as well as three other financing agreements for sustainable development of agricultural and fisheries industries.<sup>13</sup> The fisheries industry itself will benefit from €5 million to promote regional management of this vital resource in which PICs have comparative advantage to bolster various fragile small island PIC economies.<sup>14</sup> The three separate financing arrangements also extended the scope of EDF funding beyond that granted in EDF 8 to the region, allowing the six new PACP states to benefit immediately from the aid, rather than having to wait until completion of the revised EU-PACP partnership. Moreover, the REIP stimulates and augments FIC efforts to construct regional cross-cutting trade facilitation programmes. In April 2003, all parties to the PACER agreement and various Pacific NGO observers met at the Regional Trade Facilitation Forum to discuss and agree on priorities for a draft Pacific Regional Trade Facilitation Programme, as required by PACER.<sup>15</sup> In general then, the support of the EU is creating an enabling environment for regional economic integration.

Naturally, the overall intent of the trade facilitation programme is to prepare the PACP states to be able to participate in EPA negotiations as well as in the WTO. Therefore, in

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<sup>12</sup> On the merits and weaknesses of the MIRAB (migration, remittances, aid and bureaucracy) model of economic development, based on rent from transnational flows of money and people across the Pacific, see I.G. Bertram and R.F. Watters, (1985), 'The MIRAB Economy in South Pacific Microstates', Pacific Viewpoint, Vol. 26, No. 3, pp. 497-519; G. Bertram, (1999), 'The MIRAB Model Twelve Years On', Contemporary Pacific, Vol. 11, No. 1, Spr, pp. 105-138; & B. Poirine, (1998), 'Should We Hate or Love MIRAB?' Contemporary Pacific, Vol. 10, No. 1, Spring, pp. 65-105.

<sup>13</sup> Pacific Islands Forum Secretariat, (2004), Statement by EU Commissioner Poul Nielson, at Signing of 4 EDF Projects, Pacific Islands Forum, Suva, accessed at: <http://www.forumsec.org.fj/news/2004/Feb/6> April 2004.

<sup>14</sup> Commission of the European Communities, Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007, op cit., p. 35.

<sup>15</sup> W Noel Levi, (2003), Regional Trade Facilitation Forum Opening Statement, Press Statement 45/03, 15 April 2003, Pacific Islands Forum Secretariat, Suva, accessed at: <http://www.forumsec.org.fj/news/2003/Apr/>, 25 March 2004.



order to assess whether the PACP states are making progress towards the goals which have been outlined in the EU-PACP strategy, the theoretical implications of capacity building discussed in relation to trade negotiations must be considered in order to construct some basic indicators. In the context of trade agreements it is crucial that the parties can contribute to its elaboration, and be fully involved in each stage of negotiation and implementation. Hence, the long-term goal of trade capacity development (TCD) for the PACP is to establish a comprehensive trade policy framework. This involves building cross-cutting systems or networks among public and private sector, to involve each local stakeholder in ownership of the process. Summarising the opinion of the Development Assistance Committee of the OECD (2001), an effective trade policy for developing countries will include a coherent trade strategy that is closely integrated with a country's overall development strategy; effective mechanisms for consultation among government; the enterprise sector and civil society; effective networks to research and disseminate trade information and a commitment by all key trade stakeholders to outward-oriented regional strategies.<sup>16</sup> An effective trade policy enabling environment will therefore identify its trade interests in line with its development strategy by involving a wide range of actors. This will involve delegation of roles among actors and identified interests will be translated into action by allocation of resources. To drive the process forward, the role of clear political leadership is paramount in addition to which is the development of appropriate institutions.

The dynamics of TCD, or the intermediate steps along the way to implementation of a common regional trade policy, should move from analysis of the issues, or monitoring, to formulation of a development strategy and how to achieve it (Table 4.1). Subsequently, negotiation, or consultation and alliance building will occur, with implementation of trade policy being secured last. In the Pacific, several key policy priorities have already been determined, during the RTFF, in the areas of standards and conformance; biosecurity support for FIC exports and upgrading the technical capacity of customs controls, based on the Oceania Customs Organisation (OCO). However, as was noted by Secretary General Noel Levi, progress had been lacking to establish institutions called National Trade

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<sup>16</sup> San Bilal, (2003), Preparing for the Negotiation of Preferential Trade Agreements with the EU Preliminary Lessons from Some Developing Countries, 23 May, European Centre for Development Policy Management (ECDPM), Maastricht, accessed at: [http://www.acp-eu-trade.org/documents/BILAL\\_2003\\_Preparing%20for%20the%20Negotiation%20of%20PTAs.pdf](http://www.acp-eu-trade.org/documents/BILAL_2003_Preparing%20for%20the%20Negotiation%20of%20PTAs.pdf), August 2003, p. 4.

Facilitation Committees (NTFC) to coordinate trade facilitation at the national level.<sup>17</sup> Hence, it is arguable that the capacity to sustain a functioning Pacific island FTA is being

Table 4.1: Intermediate Steps for Trade Capacity Building – The Policy Process and Cross-Level Determinants of Capacity			
Level of Intervention		Objective	Main Actors
Policy			
Macro-economic policies (other than trade)	Monetary, fiscal and exchange rate policies, legal business framework, investment regulations at regional and national levels; regional redistribution mechanism		Stable and predictable macro-economic and legal environment  Coherence in government policies
Trade Policy	Analysis	Monitoring of trade and trade policy issues	Government Think Tanks Universities
	Formulation	Definition of strategic trade and development objectives (national and regional levels) Coherence with development strategy	Government bureaucracy and ministries – trade, finance, foreign affairs
	Negotiation	Promotion of country’s interests, reactively and actively, in various for a (WTO, regional organisations) Consultation between regional and national levels	Professional organisations Civil Society  Regional Organisations & Donors
	Implementation	Actual and efficient implementation of trade policy: Domestic (legislation, tariffs, regulatory reform) International (compliance with obligations; exercising rights)	Customs  Standards  Trade Facilitation programme & bodies  Judicial
Cross-level Determinants of Capacity			
Factors other than trade-related	Education, health, non-trade infrastructure		Human Capital Access to production factors (credit, capital) Factor costs
Trade related factors	Infrastructure	Physical access to markets – Road, Air, Sea	Government Professional organisations Firms
	Information	Monitoring of market information – consumer demand; prices; competition; business opportunities; trade policy	Professional organisations  Firms  Consultants
	Standards	Capacity to access export markets Awareness of standards Training Support for improvement	
	Marketing and management	Promotion of business contacts Funding for studies and consulting	

Source: Solignac Lecomte, 2001, p. 15.

<sup>17</sup> Levi, Regional Trade Facilitation Forum Opening Statement.

hastily developed in response to, rather than preparation for, the PICTA process. Functional cooperation is galvanising the will at the regional level to address cooperation in other areas, but the REIP and CROP programmes will take some time to address the deficiencies within FICs, as much has to be done to harmonise standards and lower the costs of commitment to integration beyond trade in goods to generate the political will for Pacific regionalism. Similarly, the PACP will also have to be watchful during EPA negotiations to avoid the risks of biased aid, where certain kinds of capacity assistance may be tied to concessions.<sup>18</sup> In summary, the architecture of trade capacity is beginning to form, but has yet to take root at the national level.

## **2. Information and Communication Technology**

Development of capacity in communications is another key element of capacity building in the Pacific to examine, because the ability to keep pace with the rest of the world in the information age will indicate whether the region has the technical potential to sustain effective integration. The FICs realise that the creation of a digital strategy is an urgent area for action for the Pacific region. A picture of the limited diffusion of digital communications technology is contained in Table 4.2. The 2004 Eminent Persons' Group Review outlined Forum's current outlook on the potential benefits of enhanced ICT capacity:

“Digital communication offers potential for drawing the countries and people of the Pacific closer together, and linking them more firmly to the wider world. It offers a means of harnessing the process of globalisation...through opening up new forms of economic and social development in which remoteness and small land area are less relevant...in both rural and urban areas. There would be likely spin-offs in terms of reduced need for business or official travel, or for distance education.”

(Pacific Islands Forum Eminent Persons Group, 2004, p. 24)

The key problem for the Pacific is that the countries in the region gained independence prior to the development of satellite, fiber optic or cellular-wireless technologies, and as a result possess only antiquated communication infrastructures. Prior to the introduction of postal services in the mid-1800s, and the first undersea telegraphic cable, the Pacific cable,

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<sup>18</sup> Szepesi, Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, op cit., pp. 60-61.

**Table 4.2: Profile of Current Information and Communications Technology Capacity in Forum Island Countries**

	<i>Population (2002 estimates)</i>	<i>GDP per capita (US \$)</i>	<i>Market Structure</i>	<i>Number of Internet Providers</i>	<i>Internet Customers</i>	<i>Cellphone Customers</i>
Cook Islands	12,400	4,950	Monopoly – Telecom Cook Is.	One	1,201	1,499
Fiji	118,100	2,680	Monopoly – Sectoral	One	2,076	90,000
FSM	880,000	2,157	Monopoly – FSM Telecom	One	8,000	1,750
Kiribati	84,494	420	Monopoly – Telecom Kiribati	One	521	-
Nauru	11,500	3,900	Dept. of Communications	One	-	-
Niue	1,900	1,900	Monopoly – Telecom Niue	One	200	88
Palau	19,200	8,030	National Communications Corporation	Five	1,700	2,000
PNG	4,790,800	1,200	Monopoly – Telikom PNG	One	24,600	7,700
RMI	51,800	2,210	Monopoly – Marshall Is. Telecommunications	One	668	582
Samoa	176,848	2,000	10 year Monopoly – Samoa Communications	Three	1,320	3,300
Solomon Islands	447,900	340	Monopoly – Solomon Telekom	One	900	650
Tonga	110,000	1,400	Tonga Communications & Shoreline Ltd.	One	1,200	4,000
Tuvalu	9,900	1,160	Monopoly – Tuvalu Communications	One	250	<i>No service</i>
Vanuatu	199,800	1,230	Monoploy – Telecom Vanuatu Ltd.	One	2,000	5,000

Source: Pacific Island Forum Secretariat, 2003.

in 1902, the slit gong, oratory or storytelling were the main forms of mass communication and information exchange. The single most important technological innovation though, was the introduction of High Frequency radio throughout the Pacific during the Second World War, as it was the most economic means of maintaining contact with metropolitan areas and isolated areas, where telephone lines were more expensive.<sup>19</sup> In the mid-1970s, the Forum initiated introduction of satellite communications operations, when the International Telecommunications Satellite Organisation (Intelsat) lowered its prices,

<sup>19</sup> Michael R. Ogden, and Suzanna Layton, (1999), '*Communications*', in Moshe Rapaport (ed.), *The Pacific Islands, Environment and Society*, pp. 405-418, The Bess Press, Honolulu, pp. 405-09.

allowing smaller cheaper earth stations and access to its network. Again, satellite technology has helped to link digitally, remote areas which only had HF connections.

Despite such advances and that communications are an essential public concern, the Pacific faces barriers to expand modern communications infrastructure. In general, internet access has become available only recently, beginning first in 1995 in Fiji, and most recently in Tuvalu in 2000. Only 25 per cent of Pacific islanders have regular internet access. Except for in Papua New Guinea, Samoa and Tonga there is only one internet service provider in each PIC. Difficult topography and small dispersed populations make provision of basic utilities, including equipment and opening access is expensive, in a region where there is limited or no access even to telephones. The cost of dial up access has been estimated on average at US \$50 per month; perhaps equating to one-quarter to one-half of the average annual per capita GDP among PICs.<sup>20</sup> Telephone density averages from between 20 to 60 per hundred of population (Table 4.3), and is very poor in rural areas. Only four PICs have digital mobile phone services, the remainder analogue. Tuvalu offers none. If internet access is a solution to future Pacific communications capacity gaps, then access to phone lines is essential; as is a reliable power source. Existing internet connections also operate along limited international bandwidth.

**Table 4.3: Teledensities in the PACP States/FICs**  
(Teledensities by number of lines per 100 inhabitants)

	<i>National</i>	<i>Urban</i>	<i>Rural</i>
Cook Islands	45	55	1
FSM	10	-	1.5
Fiji	12	20	0.8
Kiribati	30	1	< 1
Nauru			
Niue	69.4	66	25
Palau	90	80	-
Papua New Guinea	1.3	-	< 1
Marshall Islands	15	-	-
Samoa	50.2	17	2
Solomon Islands	2	1.5	0.3
Tonga	8	23	3
Tuvalu	8.6	13	3
Vanuatu	5	25	1

Source: Pacific Island Forum Secretariat, 2003, p. 3.

<sup>20</sup> Robert Guild, (2003), *ICTs for Every Pacific Islanders: Potential, Constraints, and Opportunities*, Pacific Economic Cooperation Council, Singapore, p. 3.

Policy and regulatory frameworks are also outdated, as they have overwhelmingly been provided and regulated by FIC government departments or corporations, and there is a huge deficiency in the training of personnel skilled in ICT because of lack of funding from public and private sector budgets.<sup>21</sup>

Hence, in relation to measuring ICT capacity building in the FICs, the key benchmarks of development will be found in a networked economy, regulatory reform, and national policy reform. Individually, PICs can encourage cross-level cooperation in the information age by embracing e-governance and e-commerce, to keep stakeholders in touch and to promote investment in services, tourism and trade in goods. Regulatory reform is necessary to address significant gaps in policy planning and formulation of a strategy, and to create an enabling environment to encourage investment and competition in the provision of communications infrastructure so that service may be improved and expanded.

As with TCD, the architecture for policy development and implementation is more developed at the regional level, with the early adoption of the 1999 Forum Communication Action Plan, and the gradual expansion of the role of the Pacific Islands Telecommunications Association (PITA) as a coordinating mechanism and a broader forum for discussion to include various stakeholders in the process.<sup>22</sup> At the national level, there is more work to be done. Indicators of capacity development perhaps will first be evident when resources provided by international agencies, such as the International Telecommunications Union (ITU) and the Pacific Governance Project (PGP), are taken advantage of to improve intellectual capacity to improve the regulation of the communications sector in relation to the overall development objectives of the country. To facilitate this, concrete short-term indicators would be the planning and provision of wide access to communications technologies, through the establishment of community telecentres, as part of local and regional strategies. This in turn would open up opportunities for connectivity and distance education options. In this way, the wide-area network offered by the University of the South Pacific that offers real time resources and

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<sup>21</sup> Cf. Pacific Island Forum Secretariat, (2003), Working Paper: Pacific ICT Capacity and Prospects, Pacific Islands Forum Secretariat, Suva, accessed at: <http://www.forumsec.org.fj/forumdocs>, 13 March 2004, pp. 11-13; Guild, ICTs for Every Pacific Islanders: Potential, Constraints, and Opportunities, op cit., p. 1.

<sup>22</sup> Seán Ó Siochrú, and Bruce Girard, (2001), Issues and Options for ACP Countries in Global Knowledge Partnerships, Phase 1: Final Report, May-June 2001, Comunex, European Community & The International Bank for Reconstruction and Development /The World Bank, accessed at: <http://comunex.comunica.org/acp/index.htm>, 15 October, pp. 34-35.

collaboration could be utilised to improve human resources in remote areas.<sup>23</sup> Again similarly to measuring progress in TCD, the key to effective progress is support for political leadership to drive the process and use digital technology to resolve a few of the disadvantages of isolation which the Pacific faces in the information age.

#### IV. CONCLUSIONS:

Even if it has been difficult to arrive at a definition of capacity building, the development community agrees that strengthening capacity is fundamental to development. In relation to key questions of development for ‘what’ and ‘for whom?’, for the PACP states, the core capacities to meet the challenges of integration and globalisation are clearly TCD and ICT development. The key recipients of capacity building efforts clearly include national and regional regulatory structures, and support for human resources, to cope with the changes ahead. The review of the literature revealed that it is not easy to measure capacity development, since capacity building is a non-linear process. This is true of the Pacific, as in the cases analysed, regional planning and institutional development has outstripped national capacity to implement regional integration schemes in these areas. Therefore, the role of committed political leadership and cross-cutting dialogue across all governmental, donor and private sector interests is paramount to the legitimate and sustainable implementation of capacity building efforts.

Thus, the Pacific region shows promise to build capacity and address certain deficiencies; with appropriate donor aid and technical assistance. Appropriate indicators of capacity development can be developed by measuring the implementation and performance of intermediate steps towards the general development goal of capacity building within a sector. However, the PACP/FICs must be careful that they do not lose control of the capacity building agenda, although to meet the obligations of the wider Cotonou partnership agenda for the Pacific, since even though Pacific islanders will be responsible for their implementation compromise on the direction and shape of development strategies is possible.

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<sup>23</sup> Guild, ICTs for Every Pacific Islanders: Potential, Constraints, and Opportunities, op cit., pp. 5-6.

## **Part Two:**

**The Challenges and Prospects for the  
post-Cotonou Agreement Process in the Pacific:  
Does the Pacific Possess the Capacity to Act as a Region?**



## **Chapter Five**

### **The Nature and State of Pacific**

#### **Regional Cooperation:**

#### **The Political Economy of Contemporary Pacific Regionalism**

##### **I. INTRODUCTION**

The first section of this thesis was predominantly devoted to establishing both the European historical and theoretical context of the post-Cotonou process, in order to produce a set of propositions that can be used to examine the depth of Pacific integration. This chapter will utilise these propositions to answer this question in two particular ways. The first is to identify the contours of Pacific regional integration, through an historical survey which identifies the key influences on the shape of regional governance. Secondly, it more implicitly seeks to explore the relationship between institutionalism and regional cooperation in the Pacific. On the surface, the Pacific possesses a comprehensive network of regional agencies and institutions, of which the Pacific Islands Forum is only one example. However, building on the arguments of Chapter Three, this may not necessarily be evidence of a strong indigenous trans-regional identification with supranational integration, as in the EU. Deploying a political economy approach to contemporary Pacific regional cooperation will help to indicate the extent to which the Pacific possesses the capacity to conduct more intensive cooperation at a collective institutional level. This is vitally important to the future of the PCP in the Pacific, because, according to the Cotonou Agreement, the ACP states are responsible for determining the strategies for development cooperation. Local integration schemes are to be the foundation for the EU model of development through regional economic integration wherever possible. Implicit in this assumption is that the political will to act in unity as a region is present and will endure, as well as the continued national commitment to implement regional policy, lest regional cooperation succumb to the

realms of pseudo-policy.<sup>1</sup> Through the thirty year life of the PIF, the PICs have proven they can act together on points of common interest, particularly where the environment is concerned. Clearly, then, regional cooperation in the Pacific is not a shallow facade. However, even if the ocean may unite Pacific Islanders, as Hau'ofa argues, the track record of Pacific regional integration shows that cooperation has not been a consistently fruitful mechanism for improving inter-island community. This may be attributed to the legacy of Western involvement in the regional structures of the Pacific, as well as the response of Pacific Islanders to the challenges of modernity through the "Pacific Way." Nevertheless, a review of the PIF completed in April 2004 has reasserted that regional integration is a key strategy to enhance the welfare of the Pacific. Despite this, it is argued here that the calculus of the political economy of Pacific Island regional cooperation may not easily conform to the parameters of integration envisaged by both the review and the EU.<sup>2</sup>

In order to illustrate these arguments, this chapter will firstly examine the EU account of the state of Pacific regional cooperation given in the Commission's 2002 *Pacific Regional Strategy Paper* (RSP) (Commission of the European Communities, 2002). Next, the analysis will move to describe how the nature of contemporary Pacific regional cooperation has been influenced by Western designs, immediately after the Second World War. In particular the PIF, as well as the Forum Fisheries Association (FFA), the Forum Fishing Line (FFL) and Air Pacific will feature as key case studies to highlight the most significant facets of Pacific regionalism. Thirdly, the imperatives of the new development orthodoxy will be revisited, as these are steadily altering the complexion of regional cooperation. It will then be possible to apply the elements of the political economy framework developed in the second chapter to this evidence to interpret the nature of Pacific political institutional integration so that an appraisal can be made of the

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<sup>1</sup> Commission of the European Communities, (2002), Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007, European Community, Brussels, pp. 40-42.

<sup>2</sup> Uentabo Fakaofa Neemia, , (1986), Cooperation and Conflict: Costs, Benefits and National Interests in Pacific Regional Cooperation, Institute of Pacific Studies University of the South Pacific, Suva, Fiji; William Sutherland, , (2003), *'Regional Governance, Peace and Security in the Pacific: A Case for Give and Take'*, (unpublished), Australia National University, Canberra, pp. 11-16; Pacific Islands Forum Eminent Persons Group, (2004), Pacific Cooperation, Voices of the Pacific, The Eminent Persons' Group Review of the Pacific Islands Forum, April 2004, New Zealand Ministry of Foreign Affairs & Trade, Wellington, accessed at: <http://www.mfat.govt.nz/foreign/regions/pacific/pif03/pdf/PIF%20Report.pdf>, 8 April 2004.

potential for the PACP states to engage in more intensive integration. Although it is beyond the scope of this chapter, this may also allow cross comparisons with other cases of regional cooperation among the six ACP sub regions, and beyond.

## **II. AN EU APPRAISAL OF PACIFIC REGIONAL COOPERATION:**

### **1. The Pacific Regional Strategy Paper**

It is little surprise that the PIF has become the vehicle for the implementation of the EU agenda in the Pacific. One reason is because of historical ties. When the Community's relationship with the PICs began in 1975 under the first Lomé Convention, only Fiji, Tonga and Samoa were part of the ACP. Since these were also the only independent states, which of course belonged to the Forum, the PIF became associated with European development policy. Hence, the PIF is now the Mandated Regional Body (MRB) for the Pacific, and the Forum Secretary-General acts as the Regional Authorising Officer (RAO) for the PACP. Furthermore, the EU tasks the CROP with the coordination of development programmes which the EU funds through the Regional Indicative Programme (RIP).<sup>3</sup> Essentially, because the history of development cooperation between the EU and the Pacific covers a similar timeframe to the experience of decolonisation and independence in the region, the EU's mental map of the Pacific has become the PIF and its institutions.

Hence, the account given of the history and structure of regional integration in the Pacific in Annex Seven of the PACP Regional Strategy Paper is limited to a history of the key achievements and trends associated with the Forum. In Chapter Two of the RSP, where the policy agenda of the region is assessed, only the Forum institutions are covered under the key institutional relationships. The EU concludes that "the Forum Secretariat is the key regional integrating organisation."<sup>4</sup> Additionally, the overall distribution and management of aid has been optimised for delivery at the regional level, even though the EU has produced a series of Country Strategy Papers (CSP) to tailor aid programming to national requirements, in order to improve the full and efficient distribution and monitoring of aid. Indicative funding is calculated for the Pacific as a region, and

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<sup>3</sup> Commission of the European Communities, Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007, op cit., p. 36.

oversight of programming is now the responsibility of the local EU Delegation under the strategy of “deconcentration,” as part of the reform of external assistance initiated by the Commission.<sup>5</sup> This approach neglects, however, the pervasive phenomenon of sub regionalism, around the culture-area divisions of Micronesia, Melanesia and Polynesia which has coloured the island mindset towards regional community.

It may also be argued that because the Forum membership comprises a representative cross-section of the countries in the Pacific, is involved in administering common functional projects and has taken steps to begin economic integration, it is most efficient for the EU to link into the regional activities of the Forum. This may be explained more fully by the programming provisions in Article Seven of Annex IV of the Cotonou Agreement, where the clause states that to “the maximum extent, regional programmes should correspond to the programmes of existing regional organisations with a mandate for economic integration” (Figure 5.1). Thus, the Forum provides a stepping stone for building EPAs in the ACP sub regions. However, the Forum is only one instance of intergovernmentalism and functional cooperation, and studying its structure and organisation does not give a complete picture of Pacific Island regional cooperation.

In general, the portrait which the European Commission has portrayed in its official development publications is that the Pacific has a young, but strong regional structure, but also significant structural problems, specific to small states, which need to be resolved. Evidence of the former is the PIC’s willingness to comply with the imperatives of donors to adopt liberal regional economic integration under the PICTA, and associated development of human resources in the private sector and governance. Evidence of the latter are the essential problems related to distance, size, small subsistence economies and susceptibility to natural disasters, which produce income volatility and can only support weak public and commercial sectors. The EU therefore emphasises the barriers of oceanic society in terms of land area, resources and location. However, even if the total land area of the PACP is around 500,000 square kilometres, the Exclusive Economic

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<sup>4</sup> *ibid.*, p. 10.

<sup>5</sup> Commission of the European Communities, (2003), Annual Report 2003 on the European Community's Development Policy and the Implementation of External Assistance in 2002, European Commission: EuropeAid Cooperation Office & Directorate-General Development, Brussels; Eurostep, (2004), 'Commission's 2003 Report on Efficiency of External Aid', Proactive File, No. 344, 30 January, p. 2.

**Figure 5.1:**  
**Cotonou Partnership Agreement, Annex IV**  
**Organising Principles of Region-to-Region Cooperation**

*Article 6*

- “Regional Cooperation shall cover operations benefiting and involving:
- two or more or all ACP states; and/or
- a regional body of which at least two ACP states are members.
- Regional cooperation can also involve OCTs and outermost regions. Funding...shall be additional to funds allocated to the ACP states under this agreement.”

*Article 7*

- Regional Programmes
- “The ACP states concerned shall decide on the definition of geographical regions. To the maximum extent possible, regional integration programmes should correspond to programmes of existing regional organisations with a mandate for economic integration. In principle, in case the membership of these organisations overlaps, the regional integration programme should correspond to the combined membership of these organisations. In this context, the Community will provide specific support from regional programmes to groups of ACP states who are committed to negotiate economic partnership agreements with the EU.”

*Article 8*

- Programming shall take place at the level of each region.

Source: (Commission of the European Communities, 2000)

Zones of its members totals 20 million square kilometres combined; more than the land area of the US.<sup>6</sup>

The Commission is confident that the PICs will continue integrative efforts, as the RSP argues that development through integration, and in particular economic integration, poses little risk to the PACP states. This view was echoed in the EU post-Forum Dialogue meeting, by the Director-General for Development, Koos Richelle in August 2003. Richelle unequivocally stated that more integration should produce more peace and more stability, as had occurred in Europe.<sup>7</sup> In a minute section of the RSP (3.93), the Commission does concede that the medium term sustainability of policies and integration in the Pacific may be qualitatively different to other ACP sub regions:

<sup>6</sup> Commission of the European Communities, (2002), The Pacific and the European Union, Office for Official Publications of the European Communities, Luxembourg, p. 11.

<sup>7</sup> Koos Richelle, , (2003), Statement by Mr Koos Richelle Director-General for Development, European Commission, Fifteenth Post-Forum Dialogue Partners Meeting, Commission of European Communities, Auckland, New Zealand.

“The Pacific ACP are characterised by dispersion, frustrated by their isolation and smallness and among them have quite different strengths and weaknesses. Combined with a variety in their respective colonial experience and heritage, this means that their instinct for regional integration and collective approaches can be more limited than the Caribbean and probably the African ACP. Nonetheless, there has been a strong tendency over the past three decades for the Pacific Islands to increasingly work together and to cooperate, especially when under pressure from the rest of the world...The sustainability of current integration initiatives depends on how well policies are formulated and implemented, and the perception of Pacific Islanders as to whether these are making a positive contribution to their quality of life.”

(Commission of the European Communities, 2002, p. 24)

This small admission alludes to the deeper dynamics of regional cooperation in the Pacific, that there is actually a trend of uneven development among PICs that undermines their potential for integration. What is more, this observation is a reminder of the problems of integration in a context of under development. Perceptual costs and benefits (Nye, 1971) in relation to national interests are an essential component of the calculus of regional cooperation, particularly in the case of vulnerable island states. Therefore, to equate the Forum with “the Pacific,” as the EU tends to, while a convenient way of reifying the dynamics of regional integration in the Pacific, ultimately presents a static picture of the nature and state of Pacific regional cooperation. As Fry (1994) argues, the full story of Pacific regional cooperation cannot be told as the history of the Forum network, as one can do so in South-East Asia with ASEAN, or Caribbean cooperation with CARICOM.<sup>8</sup> The dynamics of Pacific regional cooperation are much more complex than the EU acknowledges.

### III. THE EVOLUTION OF PACIFIC POLITICAL REGIONAL COOPERATION

The first formal institutional structures in the Pacific were formed as late as the end as the end of the Second World War. However, the Pacific would not be completely decolonised for another three decades from the end of the war. The colonial powers

defined the objectives of the very first expression of Pacific regional cooperation. Islanders' were only allowed to make a politically symbolic contribution to cooperation. The metropolitan powers were concerned with balancing the agenda promoted by the newly formed United Nations decolonisation committee for trusteeship and native welfare, with their desire to impose a reconstituted Western order on the Pacific which suited their interests.<sup>9</sup>

### **1. Initial Post-war Regional Cooperation: the SPC**

The South Pacific Health Service (SPHS) and the South Pacific Air Transport Council (SPATC) were both established in 1946-47 as the first two forms of intergovernmental cooperation in the Pacific. The organisations both fulfilled welfare functions to improve the quality of medical care in the region, and to administer and provide capital for the upgrading of air services among the islands, and for trans-Pacific services, respectively. When their objectives were met in the 1970s, both were disbanded.<sup>10</sup> The most significant regional organisation of the period was also established to fulfil a welfare function, the South Pacific Commission (SPC). Unlike the SPHS or the SPATC, the SPC was far more comprehensive in scale. Its membership comprised 18 Pacific states, and influenced the present political boundaries of the Pacific.

The SPC was founded in 1947, when the six colonial powers in the region, Australia, France, the Netherlands, New Zealand, the United Kingdom and the United States, signed the Canberra Agreement. Nevertheless, the initiative for the SPC came primarily from the Australian and New Zealand governments, and the proposals aired in a discussion paper in 1944, drafted by W.D. Forsyth of the Australian Ministry of External Affairs for a 'South Seas Commission.' Both countries were concerned with how they could participate in the construction of the post-war world order through leading regional arrangements in their corner of the globe, in the context of the power vacuum left in the Pacific by the decline of British imperial power. The purpose of the Commission was more limited than Australia and New Zealand had proposed in 1944, as the goals of the

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<sup>8</sup> Greg Fry, (1994), *International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy*, in Andrew W. Axline (ed.), *The Political Economy of Regional Cooperation*, Pinter, London.

<sup>9</sup> *ibid.*; Epeli Hau'ofa, (ed.), (1998), 'The Ocean in Us', *The Contemporary Pacific*, Vol. 10, No. 2, Fall, p. 398.

Canberra Agreement did not include the rights of dependent peoples to development, as in the Atlantic Charter, and a security dimension to cooperation was irrelevant to the majority of Western powers with an agenda for the Pacific.<sup>11</sup> The preamble to the Canberra Agreement stated the SPC's mission was to promote "the economic and social welfare and advancement of the peoples of the non-self-governing territories in the South Pacific region administered by them."<sup>12</sup> Hence, the SPC was a functional institution devoid of political powers. Its responsibility would be to improve welfare through the provision of advice to its members on economic, health and social development. Nevertheless, the SPC allowed the colonial powers to continue to maintain an influence over the islands, providing a measure of security against Communism and liberation ideologies, but in way which Islanders and the international community found acceptable.

Perhaps the primary reason for Australia and New Zealand losing the battle for a more comprehensive SPC was because the other colonial powers, while not as concerned with the Pacific as with other regions, feared that the Commission might become a vehicle for political independence. This was the origin of the "no-politics" rule in the operation of the SPC.<sup>13</sup> This decision had lasting repercussions for the course of regional cooperation, as the island states were prevented from participating in decision-making in SPC deliberations, except for channelling requests and information to the international governments. The SPC effectively put regional self-determination into stasis. Nonetheless, the SPC did make a series of positive contributions to regional cooperation. The SPC structure introduced a Secretariat for administration under the guidance of a Secretary General, as well as an auxiliary Research Council. The other major institutional innovation was the South Pacific Conference, a triennial meeting which began in 1950 and became an annual event in 1967, composed of two representatives from each member state. In this respect, the first meeting of the Conference, the Nasinu Conference in Suva

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<sup>10</sup> Michael Haas, (1989), The Pacific Way: Regional Cooperation in the South Pacific, Praeger, New York, pp. 19-30.

<sup>11</sup> R.A. Herr, (1994), '*Regionalism and Nationalism*', in K. Howe, R.C. Kiste, and B.V. Lal (eds.), Tides of History, The Pacific Islands in the Twentieth Century, University of Hawaii Press, Honolulu, pp. 284-85.

<sup>12</sup> Quoted in Neemia, Cooperation and Conflict: Costs, Benefits and National Interests in Pacific Regional Cooperation, op cit., p. 20.

<sup>13</sup> Greg Fry, (1991), '*The Politics of South Pacific Regional Cooperation*', in Ramesh Thakur (ed.), The South Pacific: Problems, Issues, and Prospects, St. Martin's Press, New York, pp. 172-73.



in 1950, was a landmark event. Although merely an advisory body, it regularised the practice of islanders meeting together to discuss matters of mutual interest.<sup>14</sup>

Greg Fry (Fry, 1997a) has also insightfully argued that the Nasinu Conference was a novel experiment for the colonial powers in trusteeship, to see if islanders from different cultural backgrounds in Melanesia and Polynesia could work together, and grapple with the problems of development using Western forms of political cooperation. Both parties considered it a milestone event. Sir Brian Feeston, Western Pacific High Commissioner, described the gathering as a “Parliament of Pacific peoples” that had never met before under one roof. Tupua Tamasese Mea’ole of the Council of Ministers of Western Samoa made a more cryptic comment that Nasinu marked “the end of the beginning”; a reference to future independence for the peoples of the South Seas. Paradoxically, compared to earlier representations of islanders, implicit in the colonial powers’ expectations was whether it could be demonstrated that islanders had the potential to form a collective identity. Thus, two countervailing experiments were in operation at Nasinu, since a conjuncture was emerging between the informal maintenance of empire and the germ of an islands independence movement.<sup>15</sup>

## **2. Independence and a Stronger Island Voice**

The conjuncture occurred in a sequence of events in 1965. Samoa, as the first independent Pacific state in 1962, became a member of the SPC; the leaders of Fiji, Tonga and Samoa led their own initiative to establish a regional organisation; and lastly, the “Lae Rebellion” at that year’s South Pacific Conference signalled the first concerted effort of Pacific leaders to challenge the colonial structures of the SPC. A Fijian minister of the time, Ratu Sir Kamisese Mara was active in the latter two developments. The goal of the protest at Lae was to give the Conference a larger role in deciding the work of the Commission. Mara was quoted as saying, “We were sick of having little to say and no authority.”<sup>16</sup> With more islands becoming independent in Polynesia in the late 1960s and early to mid ‘70s, the pressure for equality with the metropolitan powers in the SPC grew,

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<sup>14</sup> R.A. Herr, , (1980), Institutional Sources of Stress in Pacific Regionalism, University of Hawaii at Manoa, Honolulu, p. 6.

<sup>15</sup> Greg Fry, (1997a), 'The South-Pacific 'experiment': Reflections on the Origins of Regional Identity', Journal of Pacific History, Vol. 32, No. 2, Dec, pp. 180-202, note 68.

such that in 1973-74 it was agreed the Commission and the Conference would merge. In 1976, multi-voting by the metropolitan powers was abolished to address the imbalance in decision-making power from the merger. However the right to political debate was still denied. By 1983, in an attempt to make the SPC an attractive vehicle for regional cooperation, total equality in representation and voting power was granted, irrespective of political status. The SPC still exists in this form, and pursues the same welfare agenda as previously. However, it never achieved the status of an overarching regional organisation. This can be explained by how islanders were frustrated that they could not discuss political issues together that affected them. In reaction, they sought to circumvent these restrictions by developing regional institutions of their own: the Pacific Island Producers' Association (PIPA), the South Pacific Forum (SPF) and the South Pacific Bureau for Economic Cooperation (SPEC).

*(i) PIPA, SPEC and the South Pacific Forum*

PIPA's purpose was to create a commercial pressure group, among the banana exporting countries of Fiji, Tonga and Western Samoa, and later it expanded to include the Cook Islands, Niue and Kiribati. Its sole function was to negotiate improved prices with New Zealand. In this early organisation, the nature of cooperation was limited and economic, yet PIPA only survived eight years. It failed essentially because it was an association of the weak, operating on a limited budget, and because it did not lead to an increase in the price for banana exports. It was an early reflection of the context of dependence the islands were, and remain, in. PIPA nonetheless consolidated the idea of island collective action, and that such endeavours could only be successful with the mutual support of Islanders.<sup>17</sup>

The seeds of the South Pacific Forum<sup>18</sup> were sown in the heat of Fiji's independence celebrations, and informal consultation among island leaders of the five independent PICs at the 1970 South Pacific Conference. When they gathered together in August 1971 for

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<sup>16</sup> Ratu Sir Kamisese Mara, (1974), Regional Cooperation in the South Pacific, Address delivered at the University of Papua New Guinea, May 1974, p. 7, cited in Fry, G., (1981), 'Regionalism and International Politics of the South Pacific', Pacific Affairs, Vol. 54, No. 3, Fall, p. 462.

<sup>17</sup> Neemia, Cooperation and Conflict: Costs, Benefits and National Interests in Pacific Regional Cooperation, op cit., pp. 25-26.

<sup>18</sup> The South Pacific Forum was the name for the Pacific Islands Forum prior to 2000. The Forum changed its name to reflect the membership of PICs that were located above the equator. Hence it was no longer appropriate to refer to the Forum as a southern hemispheric organisation.

the first Forum meeting in Wellington, New Zealand, self-determination in regional affairs was their main objective. Consequently, the Forum was fundamentally different to the SPC, as only sovereign island states were allowed to participate. This meant that the Forum was limited in geographical scope until more independent countries were admitted during the 1970s. Learning from PIPA's failure, though, the islanders sought the membership of Australia and New Zealand. The invitation to Australia and New Zealand to join acknowledges the important point that both states are 'in, but not of,' the Pacific. They are essential contributors to the region, especially in terms of aid and technical support for regional cooperation, even if they are excluded from it for the purposes of the mutual development of the FICs.<sup>19</sup> In 2002, Australia contributed Fijian \$2.9 million to the Forum budget and New Zealand, \$756,000, compared to only \$3.472 million from all of the FICs.<sup>20</sup> Overall, non-island governments have funded as much as 90 per cent of the costs of regional organisation.<sup>21</sup> Without their support, the Forum and its agencies would be unable to carry out their work, since, small island states would be less enthusiastic about participating in regional cooperation if they had to foot the bill.<sup>22</sup> The scenario is a double-edged sword though for Islanders, because Australia, New Zealand and the other international donors to the Forum are all able to maintain an interest in the agenda of the region, particularly to ensure stability in the region by helping PICs to meet the basic obligations of statehood.<sup>23</sup>

One of the reasons for the rapid formation of the Forum was its distinct lack of formal rules for governing its operation or the conduct of its meetings. The annual Forum meeting is chaired by the Head of Government of the host nation for that year. Decisions are reached by consensus and are outlined in the Forum Communiqué, from which policies and work programmes are developed. Nevertheless, for political leaders, the shared collective will to reject neo-colonialism, as well as basic cultural affinity and shared aspirations towards political and economic viability have been just as important in

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<sup>19</sup> Fry, *International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy*, op cit., pp. 141-142.

<sup>20</sup> Pacific Islands Forum Secretariat, (2003), *Pacific Islands Forum Secretariat Annual Report*, Pacific Islands Forum Secretariat, Suva, accessed at <http://www.forumsec.org.fj/docs/Annual%20Report/Annual%20Report%202002-2003.pdf>, 30 January 2004, p. 27.

<sup>21</sup> Herr, *Regionalism and Nationalism*, op cit., p. 288.

<sup>22</sup> Ron G. Crocombe, (2001), *The South Pacific*, Institute of Pacific Studies, University of the South Pacific, Suva, p. 622.

<sup>23</sup> Herr, *Regionalism and Nationalism*, op cit., p. 288.

uniting Pacific states. In other words the Forum does not have a founding charter or a treaty to give it legal character. The informality of Pacific regionalism is one of the key reasons for how regional cooperation has endured, as it avoids contentious political forms. The present day Forum has therefore come to be based on two types of political organisation; service divisions and semi-autonomous agencies. Ministerial meetings make recommendations to the Forum in the form of Action Statements or Communications in the areas of economics, aviation and communications. The Forum's work is divided into four divisions: Development and Economic Policy; Political International and Legal Affairs; Trade and Investment and Corporate Services, under the control of the Secretary General who is responsible to the Forum Officials Committee. The Secretary-General is usually appointed by the consensus of the Forum Heads of Government. Presently, there are eight key regional organisations that have specialist functions, similar to how PIPA and SPEC operated. Their names and mandates are described in Table 5.1.

In summary, there is a high degree of institutional plurality in the Pacific, perhaps blunting the effectiveness of the limited amount of resources available to support collective action. In recognition of this point, the CROP also exists to reduce duplication and harmonise activities among these organisations, and with international actors. The style of regional cooperation has adapted according to the current issues facing regional cooperation.<sup>24</sup> The formation of the SPEC in 1973 was very much due to the Forum's informal approach to politics. SPEC unnecessarily duplicated the role of PIPA, as its mandate to enhance the export capacity of the FICs was similar, but its competencies included facilitation of research and technical advice for the Forum. Hence, it became the basis for the Forum Secretariat in 1975; formalised in name in 1988. One of the most significant early tasks of SPEC was to negotiate the terms of association with the European Community, as well as investigating the potential for economic integration.<sup>25</sup> In 1974 PIPA was subsumed by SPEC. More controversial than this was the real challenge that the Forum and SPEC represented to the SPC by the mid-1970s. The tension created a lasting debate on whether there should be one or several regional

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<sup>24</sup> Yoko Ogashiwa, (2002), *'South Pacific Forum: Survival under External Pressure'*, in Shaun Breslin, Christopher W. Hughes, Nicola Phillips, and Ben Rosamond (eds.), *New Regionalisms in the Global Political Economy*, Routledge, London & New York, pp. 213-14 & p. 219.

<sup>25</sup> Fry, 'Regionalism and International Politics of the South Pacific', p. 464.

**Table 5.1: Pacific Regional Organisations  
in Operation in 2004**

<i>Organisation</i>	<i>Establishing Agreement Year</i>	<i>Mandated Area of Work</i>
Secretariat of the Pacific Community (SPC)	1948	Agriculture, health, education, fisheries
University of the South Pacific (USP)	1968	Provide for the tertiary education needs of the Pacific; Promote social and economic advancement, good governance and regional cultures
Pacific Islands Forum (Secretariat)	1971 (1973)	Regional policy (and until 1976 shipping, civil aviation, energy and telecommunications) Fosters regional cooperation and integration, particularly on economic and trade matters
Forum Fisheries Agency (FFA)	1979	Fisheries management; offers research and technical advice to Forum members
South Pacific Tourism Organisation (SPTO)	1980	Promote cooperation in marketing the Pacific as a region for tourism
Pacific Islands Development Program (PIDP)	1980	Contribute to sustainable development policy research through between Pacific countries and regional “Pacific Rim” countries.
Council of Regional Organisations in the Pacific (CROP)	1988	Coordinates activities of the regional organisations to avoid duplication and improve efficiency of activities
South Pacific Regional Environment Programme (SPREP)	1993	Promote cooperation to protect the environment and employ methods of sustainable development
South Pacific Geoscience Commission (SOPAC)	1995	Identify, assess and develop non-living marine resource potential under UNCLOS

Source: (Commission of the European Communities, 2002, pp. 53-54); (Sutherland, 2003, p. 5).

organisations. As it happened, the Forum and its agencies became the nexus for regional projects, since it encapsulated the aims of Pacific leaders which Herr (Herr, 1980) attributes to the prevailing historical determinism for indigenous regional coordination. It tackled the problems that were relevant to PICs, like environmental management, opposition to French nuclear testing and fisheries.<sup>26</sup> However, a single regional architecture has not proven to be practical, because the Forum still does not incorporate all Pacific territories, and institutionalisation would also have worked against the emerging conventions of Pacific cooperation in the 1970s, embodied in the “Pacific Way.”

To summarise, the prime goal of the Forum, in its formative years in the 1970s, was to establish a cooperative process in which the islanders could control the agenda unfettered. The crucial issues were the political symbolism of having independent regional organisations and about the membership and control of those organisations.<sup>27</sup> Hence, the nature of the present institutional structures of Pacific regional cooperation lies in the PIC backlash against the apolitical conventions that the colonial powers imposed on them through the SPC. As the divide between the SPC and the Forum persisted, two regional organisational networks have emerged in the Pacific, but it is only in the Forum that joint positions can be adopted regarding political issues affecting the region. The Forum network also reveals that one of the characteristics of Pacific regionalism is that cooperation occurs in functional areas of low politics, not only to assert independence, but as the primary expansive mechanism of regional cooperation. Nevertheless, metropolitan powers will most likely always need to be involved in cooperation for collective action to be viable. It is a necessary tension that will continue to colour the nature of PIC cooperation.

### **3. Is the “Pacific Way” a Unique Form of International Interaction?**

The Pacific Way is a concept associated unequivocally with the articulation of an independent identity in the Pacific to match the self-determination agenda of the Forum.<sup>28</sup> It can be defined in more detail as the practice among Pacific people to resolve communal conflict in a manner in which rank and status do not matter. Unanimous compromise is the ideal outcome. Ratu Mara and the SPF were the most vocal proponents of the Pacific Way as an attempt to reconstruct practices of the past to ‘unlearn’ Western modes of negotiation. It places Pacific aspirations and unity at the core of regional politics. However, its emphasis on consensus and equality often leads to political will prevailing over pragmatism. It is also characterised by “optimistic incrementalism,” which means that Island leaders are often content to let things work out over time, rather than to plan ahead. Overall, it perhaps represents a synergy between public and private life, which the West keeps separate. Furthermore, it tends to generate a conscious recognition among Pacific leaders that different combinations of participants will be appropriate for the

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<sup>26</sup> Herr, *Institutional Sources of Stress in Pacific Regionalism*, op cit., p. 9-10.

<sup>27</sup> Fry, *The Politics of South Pacific Regional Cooperation*, op cit., p. 174.

<sup>28</sup> The seminal work on this subject is Ron G.Crocombe, (1976), *The Pacific Way: an Emerging Identity*, Lotu Pasifika, Suva, Fiji.

particular regional purpose in mind. Lastly, the Pacific Way evidences the importance of regionalisation to incorporate processes of cooperation that are not economic or strictly political.<sup>29</sup> Specifically in relation to Forum decision-making, this meant that decisions should be arrived at through a process with a minimum of bureaucracy and which is agreeable to all parties.<sup>30</sup>

Hence, there is a long contested debate over whether or not the Pacific Way really reflects a real picture of a unified Pacific and a unique communal way of conducting intergovernmental politics at the regional level, or whether it is really political mythology; or an artificial recreation of past 'tradition.' Certainly, commentators admit that there is a strong collective dynamic in Pacific regionalism which is difficult to quantify, chiefly because of the multiplicity of linkages between individuals and organisations that strengthen the formal intergovernmental strands. However, as alluded to earlier, many argue that the Pacific Way is a shield for island elites to shape the agenda of the region and defend their own privileges and luxuries which they derive from participating in intergovernmental events, such as travel.<sup>31</sup> Michael Haas (1989) argued that the Pacific Way represents "a new form of international statecraft (which) has developed in the region."<sup>32</sup> Peace among regional actors is seen as the normative condition of inter-state relations in the Pacific because of shared values, as well as a common focus against the outside world due to the problems of dependency. Elaborating further, Haas believed that the Pacific Way supplied an additional contribution to thought on functionalist theory because cooperation proceeds in the first instance on the basis of cultural solidarity, which gives elites a solid foundation to develop common political resolve to make regional economic and technical projects possible:

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<sup>29</sup> Haas, *The Pacific Way: Regional Cooperation in the South Pacific*, op cit., pp. 8-13.

<sup>30</sup> Fry, *'International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy'*, op cit., p. 142.

<sup>31</sup> See for example, Roger M. Keesing, , (1989), 'Creating the Past: Custom and Identity in the Contemporary Pacific', *The Contemporary Pacific*, Vol. 1, No. 1-2, Spring & Fall, pp. 19-42; University of the South Pacific Institute of Pacific Studies., (1992), *Culture and Democracy in the South Pacific*, Institute of Pacific Studies University of the South Pacific, Suva, Fiji; Stephanie Lawson, (1996), *Tradition versus Democracy in the South Pacific: Fiji, Tonga and Western Samoa*, Cambridge University Press, Cambridge; Melbourne; Sutherland, *'Regional Governance, Peace and Security in the Pacific: A Case for Give and Take'*, p. 3.

<sup>32</sup> Haas, *The Pacific Way: Regional Cooperation in the South Pacific*, op cit., p. xii.

“...the most promising form of discussion between countries seeking to improve relations begins with areas of agreement and moves to areas of ambiguity, but scrupulously avoids unfruitful areas for cooperation.”

(Haas, 1989, pp. 168-69)

However, the genius of early Pacific regional cooperation, as well as the evidence from subsequent phases of cooperation would indicate that the conduct of regional politics following the Pacific Way is not inherently different from intergovernmental politics. The self-determination agenda of the Pacific Way has been as much about the pursuit of shared national interests as presenting a common counter-cultural front to the West. Crocombe (Crocombe, 2001) cites evidence that regionalism does not have significant grass-roots support, as sub regional and national loyalties are stronger in terms of accountability of leaders and officials to their native communities. Furthermore, the MIRAB model shows that extra-national linkages are often orientated towards the industrialised world than among the islands, where travel, labour, goods, information and services exchanges are concerned.<sup>33</sup> Similar to Western mental construction of a tranquil Pacific island paradise discussed in Chapter Three, Haas perhaps equates the lack of conflict and depth of conformity and consensus in Pacific politics as an indicator of a distinctly different quality to Pacific Island regionalism. This might be explained better by how the successful cases of Pacific regional cooperation have avoided a significant degree of supranational commitment, at least until the twenty-first century. The rhetoric of regional cooperation is stronger than the reality. Hence, as some of the succeeding cases will describe, it is doubtful that the Pacific Way represents a fundamentally different form of functional integration, but it has been a catalyst for a regional attitude that the PICs should determine future developments, rather than foreign powers.

#### **IV. CLEAVAGES, PATTERNS & PROGRAMMES**

##### **1. Culture Area Regionalism: Cleavages based on Ethnicity and Geography**

While it has been seen that certain political-institutional linkages are strong, regional intergovernmental activity accounts for as little as three per cent of total governmental expenditure, even though it provides useful services and more political cohesion and

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<sup>33</sup> Crocombe, *The South Pacific*, op cit., pp. 616-18.





*(i) Melanesian sub regionalism*

Concurrently, with the expansion of the Forum, Pacific states in Melanesia achieved independence in the second wave of decolonisation between 1974 and 1980. Until that time, the story of Pacific regional cooperation had been the tale of Polynesian regionalism, since they *were* the independent Pacific.<sup>36</sup> As latecomers the Melanesian leaders were often critical of Polynesian progress. The independence of Papua New Guinea (1975), the Solomon Islands (1978) and independence struggles in Vanuatu and New Caledonia contributed a more uncompromising point of view on the principle of self-determination. D'Urville's racial categorisations also produced latent tensions between Melanesians and Polynesians due to how Melanesians were 'ranked' lower than their Eastern cousins. Melanesians also speak Pidgin, which is the preferred language for social situations, again differentiating them from the other Islanders around them. The larger Melanesian islands also have different priorities in development because of the differences between their islands and the high volcanic islands of Polynesia. Just as important, more tuna are found in Melanesian and Micronesian waters than in Polynesia, which has encouraged sub regional protection of this resource. Ratu Mara and Fiji also became more closely associated with the Melanesian states from the 1978 Forum onward, because of their mutual interest in limiting involvement in Forum initiatives to sovereign Pacific states, and opposing French colonialism.

Sub regional identification was consolidated in Melanesia in 1986, when the Melanesian Spearhead Group (MSG) was created. Their radical position on independence bound together initially PNG, the Solomons, Vanuatu and the *Front de Libération Nationale Kanak et Scolaiste* (FLNKS) liberation movement in New Caledonia. Border tensions between PNG and the Solomons, another legacy of colonialism, threatened to implode the MSG. More recently, though, the group concluded the MSG Agreement in July 1993 to liberalise tariffs and subsequently in 2000 to create a customs union. It is intended that by 2008 liberalisation will be complete. Fiji had initially declined membership to stifle fears of culture area regionalism, but in 1996 it was admitted since it has the largest

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<sup>36</sup> Fry, 'International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy', op cit., p. 143.

manufacturing industry in the Pacific and stood to benefit significantly.<sup>37</sup> In 2003, the MSG leaders agreed that the trade agreement should be extended to New Caledonia, which puts more pressure on the OCT to reach independence, as agreed with France under the Noumea Accord in 1998. In 2004, the MSG intends to take a deeper step towards integration, as they agreed the previous year as well to establish a Permanent Secretariat, in Port Vila, which brings the MSG another step closer to achieving a degree of integration to rival the Forum.<sup>38</sup>

### *(ii) A Polynesian riposte*

A fleeting attempt to build a Polynesian Community occurred in 1987, principally from the French Secretary of State for the Pacific, Gaston Flosse and the Cook Islands Prime Minister, Sir Tom Davis. Its emphasis was to be cultural and economic, but it collapsed because only Tonga and Niue seriously supported it, since too many other Polynesian states feared upsetting the balance of relations with outside powers, who refused to help fund the project, and fears of Tongan dominance. Where the Polynesian Community failed, however, the Small Islands States Summit, founded in 1992, has succeeded. It brings together the Cook Islands, Kiribati, the Marshall Islands, Niue, Nauru, and Tuvalu, while French Polynesia sits as an observer. The SIS sits within the Forum, and consequently its most important function is to advance the interests of the microstates to the wider Forum, which include climate change, water and energy. The Forum also recognises the special needs of the smallest and most vulnerable states in its work programme, begun under SPEC. The SIS again, however, is highly dependent on outside funding for its activities and programmes to occur, as illustrated by the EU signing several Indicative Programmes and Financing Agreements with several SIS members in August 2003.<sup>39</sup> Coupled with the small scale of these economies, it is extremely unlikely that sub regional integration as the MSG is attempting could happen.

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<sup>37</sup> *ibid.*, p. 147; Crocombe, *The South Pacific*, op cit., pp. 599-600.

<sup>38</sup> Allan Kemakeza, (2003), *'Melanesian Spearhead Group Statement, Forum Leaders Summit, 16 August 2003'*, Thirty Fourth Pacific Islands Forum Communiqué, Annex Four, Pacific Islands Forum Secretariat, Auckland.

<sup>39</sup> Delegation of the European Commission for the Pacific, (2003), Media Release: EU signs Financing Agreement with Cook Islands for EUR 2.0 million, 17 August, Auckland; Delegation of the European Commission for the Pacific, (2003), EU Signs country Strategy Paper and National Indicative Programme with Nauru for EUR 2.3 million, 17 August, Auckland; Delegation of the European Commission for the Pacific, (2003), EU signs Country Strategy Paper and National Indicative Programme with Niue for EUR 2.6 million, 17 August, Auckland; Delegation of the European Commission for the Pacific, (2003), EU signs Financing Agreement with Tuvalu for EUR 3.97 million, 17 August, Auckland.

Less significant, but not to be forgotten, are the sub regional linkages inspired by the metropolitan powers. Micronesia, the Federated States of Micronesia, the Marshall Islands and Palau all remained under the tutelage of the United States under the Compact of Free Association, which gave the US responsibility for defence, but autonomy to the islands for decision-making. The Compact has afforded these states high income and higher standards of living than they could have had otherwise because of the aid they have received in United States dollars.<sup>40</sup> The Cook Islands, Niue and possibly soon Tokelau's relationship of Free Association with New Zealand represents another set of extra-regional linkages. Besides the trans-national aspects of the relationship previously mentioned, the Cook Islands are New Zealand's largest destination for bilateral aid, at NZ\$6.24 million, while one-quarter of Niue's budget is derived from New Zealand aid.<sup>41</sup>

Interestingly, in the RSP, the European Commission isolates only the MSG as a significant sub regional collective integration process outside of the Forum. The Commission praises the MSG for "fostering a sense of cultural and political identity in a region long used to two-way relationships with distant metropolitan powers," and unlike commentators of the MSG in its early days, does not consider it to be working against regional integration through the Forum. From the EU's perspective, the economic integration initiatives that the MSG is pursuing are now perhaps just as important as stepping-stones to comply with the neoliberal reforms of the PCP. The important conclusion though, is that sub regionalism has been pursued as a strategy for cooperation when national interests have not been shared at the regional level. Hence, although foreign interests may prefer to deal with the Pacific as a single entity for the sake of convenience, regional identification may actually be just as strong in some instances among sub regions, because of the diversity of islands interests and because of the overlapping informal processes through which cooperation coalesces in the Pacific.

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<sup>40</sup> Palau, received is entitled to US\$700 million in assistance from the date of its independence in 1994, until the Compact finishes in 2009. In 2001, the RMI and FSM Compacts, signed in 1986 at independence, expired and have been renegotiated, supposedly with the intention of making the islands economically self-sufficient. Thus, the Compact will run for 20 more years, and allow Micronesians access to the US without visas, as well as Federal Post and Aviation Administration Services, as well as reciprocal US military access, but moreover, the FSM for example will receive US\$92 million per year. Pacific Islands Report, (2003), U.S., Federated States Sign 20 Year Compact, *Pacific Islands Report*, East-West Centre, Hawaii, Honolulu, accessed at <http://166.122.164.43/archive/2003/May/05-14-01.htm>, 3 February 2004.

<sup>41</sup> New Zealand Agency for International Development, (2003), Pacific Fact-Sheet, Wellington, accessed at <http://www.nzaid.govt.nz/pdf/pacificfactsheet.pdf>, 3 February 2004.

## **2. Contrasting Cases of Regionalism: National Interests and Polarisation of Costs and Benefits of Regional Cooperation**

Hence, once the Forum had established itself as a leading intergovernmental body, its focus shifted initially to the business of the economic development of the Pacific, away from the galvanising issue of self-determination that had previously united the first FICs. In 1971, economic integration was outlined as one of the ambitions of the Forum. Issues on the agenda now included the form that integration schemes should take, where organisations should be located, who should fill key posts, and how contributions to regional endeavours should be determined. These were all matters with great potential for national interests to diverge. The shift in the nature of the agenda also meant that the Forum members began to focus on specific functional projects. One of SPEC's first tasks was to investigate the possibilities. As argued earlier, it was a logical course of action, given the precedence of economic integration as a model of cooperation, because of its success in Europe and its employment in other parts of the developing world. Working together to pool resources to create economies of scale seemed to make perfect sense in a vulnerable island environment.

Surprisingly, economic integration along the lines of a free trade area, customs union or economic union were firmly rejected as possible models of cooperation at the urging of consultants and officials who realised that the islands lacked an economic base for integration. Their conclusions were made on the basis that the island states did not naturally comprise an economic unit, since they were scattered into sub regional clusters, only Fiji possessed an industrial economy, and intra-regional trade was only 2 per cent of total trade because of the similarity of products exported by PICs. For these reasons, a Pacific federation, although sometimes proposed, has not been considered practical. Thus, cooperative endeavours began as sectoral integration, in areas of specific mutual benefit to the islanders, including fisheries, shipping, civil aviation and tertiary education. Environmental protection has also caused national interests to coalesce. Several case studies could therefore be examined to highlight the particular nature and state of regional cooperation programmes in the Pacific. However, the sectoral integration efforts in the areas of regional fisheries management and transport have been selected for detailed analysis, because these respectively can best illustrate the contrast between factors which have facilitated integration and cleavages which have caused cooperation to stall.

*(i) Fisheries: the Forum Fisheries Agency and the “Tuna Commission”*

Fisheries management may be characterised as a successful case of sectoral integration because it meets a need incumbent upon the region since the 1970s to protect a vital migratory resource from exploitation. Tuna represents 10 per cent of the combined GDP of all nations and six to eight per cent of wage employment, underlining its value to the PICs.<sup>42</sup> The FFA is the principal agency that carries out this task. It has its origins in the need to manage fisheries resources across the Forum raised by the establishment of the UN Convention on the Law of the Sea (UNCLOS) in 1973. Adopted in 1982, UNCLOS provided each Pacific state with a 200 mile Exclusive Economic Zone. Thus, the new zones needed to be managed and controlled, given the interest of Distant Water Fishing Nations (DWFN) such as Japan, Korea, Taiwan, the United States and the Soviet Union to harvest the resource without returning the benefits to PICs. Since the skipjack tuna is a migratory resource, regional cooperation was the only solution. Nevertheless it took three years to negotiate the FFA Convention, principally because there was division over whether DWFNs should belong to it, and its scope, whether to maximise benefits, as in a cartel, or merely manage resources through broader participation consistent with Article 64 of UNCLOS.

The more radical elements were favoured. The Forum states to which fisheries were most important, Fiji, Kiribati, Nauru, PNG, the Solomon Islands and Tonga were opposed to anything less than full sovereignty over the FFA. The United States opposed loss of control of its fishing fleets in Pacific waters, which was only ended by a compromise negotiated by Australia at the 1978 Forum meeting by satisfying the demands of the islands, but not to exclude the possibility of bilateral negotiations in the future. America resisted a bilateral treaty until as late as 1988, but relented to prevent the islands granting licences to the Soviet Union.<sup>43</sup>

Following this pattern, the EU initiated negotiations in May 2001 to conclude bilateral tuna fishing agreements with the Pacific ACP, with the first arrangement signed with Kiribati in July 2002. Another significant achievement of the FFA was as the principal

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<sup>42</sup> Commission of the European Communities, The Pacific and the European Union, op cit., p. 12.

policy entrepreneur behind a regional ban on drift-net fishing through the UN in 1989, which originated in the Tarawa Declaration (see Figure 5.3).

**Figure 5.3: Major Forum Resolutions – 1971-2003**

<p><b>South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA).</b> SPARTECA is a non-reciprocal trade agreement under which Australia and New Zealand offer duty free and concessional access for virtually all products originating from the developing island countries of the Forum. SPARTECA entered into force on 1 January 1981.</p>
<p><b>South Pacific Nuclear Free Zone Treaty (SPNFZ) 1985.</b> The SPNFZ treaty seeks to ban all forms of nuclear testing by the Parties. Under the Protocols, the nuclear weapon states agree not to use or threaten to use nuclear explosive devices against any Party to the Treaty and apply the basic provisions of the Treaty to their respective territories in the zone.</p>
<p><b>Tarawa Declaration, 1989.</b> Expressed concern by the Forum at the damage caused to regional fisheries by drift net fishing. As a result of regional efforts, drift net fishing ceased in the South Pacific.</p>
<p><b>Honiara Declaration, 1992.</b> The Honiara Declaration outlined a framework for priorities to promote peace and security in legal, police, customs, drugs and training areas.</p>
<p><b>Waigani Convention, 1995.</b> The Waigani Convention seeks to ban the importation into FICs of hazardous and radioactive wastes, and to control the trans-boundary movement and management of hazardous wastes within the region. The Convention came into force on 21 October 2001.</p>
<p><b>Aitutaki Declaration, 1997.</b> The Aitaki Declaration contains guiding principles governing regional security cooperation in the region.</p>
<p><b>Biketawa Declaration, 2000.</b> The Biketawa Declaration outlines the guiding principles of for good governance and courses of action for a regional response to crises in the region.</p>
<p><b>Pacific Agreement on Closer Economic Relations (PACER) and Pacific Island Countries Trade Agreement (PICTA).</b> PACER is a regional economic cooperation between all Forum members, including Australia and New Zealand, which came into force on 3 October 2002, after seven members ratified the agreement. The PICTA is a FTA, initially applying to the 14 FICs, which entered into force on 13 April 2003 after it was ratified by six members. Eventual trade integration was on the inaugural 1971 Forum agenda.</p>
<p><b>Nasonini Declaration on Regional Security, 2002.</b> The Nasonini Declaration further highlights the region's concerns over and response to trans-national crime and terrorism.</p>
<p><b>Pacific Oceans Policy, 2002.</b> The Pacific Oceans Policy aims to ensure the future sustainable use of the Pacific Ocean and its resources by Pacific Islands communities and external partners.</p>
<p><b>Forum Declaration on the Solomon Islands, 2003.</b> The Forum commended the swift and cooperative response of Forum Members in deploying the Regional Assistance Mission to the Solomon Islands (RAMSI), consistent with the principles of the Biketawa Declaration, to help restore law and order, and a programme of assistance to strengthen the justice system and restore the economy and basic services.</p>

Source: Pacific Islands Forum Secretariat

<sup>43</sup> Elise Huffer, (1998), 'Canoes v. Carriers: International Relations in the South Pacific', *Commonwealth & Comparative Politics*, Vol. 36, No. 3, Nov, pp. 86-89.

Within the past five years, the value of collective management of fisheries was further recognised when a Multilateral High Conference was convened between Pacific and foreign powers, which in 2000 adopted a Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean, or the “Tuna Convention.” This has provided the basis for efforts to found a “Tuna Commission,” or a regional commission to jointly manage the conservation and sustainable development of the fisheries industry in the Pacific. Pace is gathering behind the Commission, with four Preparatory Conferences held thus far.<sup>44</sup> As a result of negotiations to date, important and difficult concessions have had to be made both by FFA’s member countries and by the distant water fishing nations. Some of the crucial remaining issues include how the management role of the Commission will be discharged, how management limits will be decided and allocated among EEZs and the high seas, and scientific and commercial data collection and usage. Under these circumstances, the FFA will continue to play an invaluable coordinating role with the emerging Commission. It will provide the institutional capacity for enforceable management of the high seas, extend under the Tuna Convention. The Commission will place new responsibilities on member countries which will require them to look beyond immediate issues and develop longer term perspectives and strategies. Restriction of catches over the whole western and central Pacific tuna resource, whether for biological or economic reasons, becomes a distinct possibility.<sup>45</sup> Consequently, the Tuna Convention raises the stakes of regional cooperation, beyond the non-political role of the FFA. Solidarity in the face of potential external pressure will be essential to enable the PICs to protect their national and regional interests.

### *(ii) Regional Transport: Air Pacific, PIASA and the Pacific Forum Line*

For a region comprised of island archipelagos, and substantial distances between them, transportation is an equally vital area of sectoral integration as fisheries for development, to transport nearly one million foreign tourists per year to the Pacific, and to serve as a

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<sup>44</sup> Commission of the European Communities, Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007, p. 13; Pacific Islands Forum Secretariat, (2003), Forum Communiqué, Thirty-Fourth Pacific Islands Forum, Auckland, New Zealand, PIF(03)11, Pacific Islands Forum Secretariat, Auckland, p. 8.

<sup>45</sup> Forum Fisheries Agency, (2004), The Tuna Commission, Forum Fisheries Agency, Honiara, Solomon Islands, accessed at <http://www.ffa.int/www/index.cfm?itemID=32>, 4 February 2004.



vital line of communication.<sup>46</sup> However, in contrast to the successes of Pacific regional cooperation in fisheries, it has proved difficult to adopt a sustainable regional architecture for air and sea transportation.

Fiji's national airline, Air Pacific, originally began life as a joint endeavour between the governments of Australia, Britain, Fiji and New Zealand with the intention of building a regional airline owned by the PICs, and operating routes among them and to Australia and New Zealand. It was a logical approach to the problem of providing regional air transport to a region which could not afford the substantial capital costs involved in running an international airline, or indeed which possessed the population base to support numerous carriers on routes that were regarded as uneconomic by foreign carriers. In theory, the need for cooperation should have been as compelling as was the case with fisheries. However, in this case national interests conspired to scuttle these plans. Air Pacific was originally named Fiji Airways. The consortium of interests wished to expand Fiji Airways to use a vehicle for a single regional carrier. Hence, the base for the new airline was in Fiji, and as such it was Fiji which led the local initiative to gain support for the concept among the PICs in the early 1970s. Tonga, Samoa, Nauru and the still then colonised Solomon Islands and Kiribati became shareholders as a result, but Fiji was the major island shareholder. Fiji was primarily interested in making the airline work to its own advantage, rather than distributing the benefits to the other stakeholders in the project. For instance, Fiji blocked employment of non-Fiji nationals in all but token roles in other countries. Even hostesses were refused. Fiji kept 97 per cent of jobs, including all senior positions and training awards. More disastrously, all flights had to pass through Fiji, even when this was not the most convenient or direct route. All supplies were purchased in Fiji, and all confirmed bookings had to be made in Fiji. Finally, the local franchise for the aircraft chosen by Air Pacific, the British Aerospace 1-11, was owned by the Fijian civil aviation minister, which meant that a better aircraft for the airline's routes, the Boeing 737, was passed over.<sup>47</sup> For these reasons, the other partners perceived that the regional airline was run in the interest of Fiji, and when New Zealand and Australia

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<sup>46</sup> Based on visitor numbers supplied from SPTO countries in South Pacific Tourism Organisation, (2001), *2001 Statistical Summary*, South Pacific Tourism Organisation (SPTO), accessed at [http://www.tcsp.com/private/stats/2001\\_stats.pdf](http://www.tcsp.com/private/stats/2001_stats.pdf), 20 January 2004.

<sup>47</sup> Neemia, *Cooperation and Conflict: Costs, Benefits and National Interests in Pacific Regional Cooperation*, pp. 105-06; Fry, *International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy*, op cit., pp. 151-53; Crocombe, *The South Pacific*, op cit., pp. 606-07.

relinquished their shareholding, the islands declined to commit more capital to expand the airline. Thus, by the time of the 1974 Forum the single regional airline concept had died. Thus, Air Pacific became a Fijian airline in principle as well as practice. Today, Qantas owns 46 per cent of the airline, and the Fiji government 51 per cent, and remains the Pacific's largest carrier, recording a Fijian \$25 million profit.<sup>48</sup> The airline has also shed its regional routes and concentrates on international routes to Australia, New Zealand, Japan and the United States.<sup>49</sup>

In whole or in part because of this, demonstrating the crucial role of perceptual costs and benefits in decisions relating to progress in integration, the other islands developed their own carriers, proving it was possible to fly other routes. Air Nauru, Air Vanuatu, Polynesian Airlines, Air New Guinea, Solomons Airlines and Royal Tongan Airlines are a sample of the carriers which have sprung up either in response to frustration at Fiji's self-interest or because of the prestige of owning a national carrier. Most have been characterised by mismanagement, unprofitability and unsustainable operations for the islands they serve, however, there is no sign of radical rationalisation.

However, the Forum is again pushing regional cooperation as an effective solution to the Pacific's air transportation problems, as moves are afoot to liberalise and rationalise air services in the Pacific by implementing the Forum Aviation Action Plan.<sup>50</sup> One of the concerns of the Forum Aviation Ministers is to strengthen Pacific airlines so that they can eventually survive in a market with larger international carriers. At the first Aviation Policy Meeting in 1998, two main issues were identified as barriers standing in the way of this ambition. The first was the problem of the number of bilateral air services agreements which the FICs are party to, when the trend in the worldwide aviation sector is to liberalise operating environments. Altogether, there are 67 bilateral agreements, with 25 among the FICs themselves. The complicated legal environment makes it extremely difficult for airlines to gain multiple international route approvals in the Pacific region, and consequently have acted as a brake to multi-destination tourism, inward investment and industry development. The second problem is to improve access for

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<sup>48</sup> Air Pacific Fiji, (2004), About Us, Suva, accessed at <http://www.airpacific.com/website.nsf>, 4 February 2004.

<sup>49</sup> Frawley, Gerard, (1995), 'Airline Profile: Air Pacific', Australian Aviation, No. 111, October, p. 45.

international capital by liberalising ownership and control issues of airlines so that they can be more competitive. Thus, the Aviation Ministers have investigated and drawn up a proposal for a single Pacific aviation market, known as the Pacific Islands Air Services Agreement (PIASA). It was endorsed at Aviation Ministerial meeting in July 2003 and also by the Forum in August 2003. FICs are urged to become parties to PIASA as soon as possible.

PIASA is designed to replace the existing bilateral agreements with one agreement to cooperatively liberalise air services and introduce a common framework to regulate safety, air freight and airspace management. PIASA envisages that this process will occur in three stages to allow FIC airlines and governments to adapt to changes first, and then allow international carriers into the FIC market. To make it easier for small airlines to expand in the Single Market, greater access will be granted, as well as general provisions for airlines to access foreign capital sources, and for innovative pricing. Potential loss of revenue is expected to be offset by development of new routes and greater traffic between the FICs, although infrastructure, especially better hotels, is needed to increase growth.<sup>51</sup> Furthermore, at the 2003 Forum, Leaders agreed that a Pacific Regional Aviation and Shipping scoping study to investigate how PICs can collaborate to improve regional transport services will be conducted, funded by Australia. In doing so, leaders recognised that a regional airline concept is insufficient, or inappropriate, to meet the regions needs.<sup>52</sup> Rather, PIASA should help alleviate the key structural barriers that have prevented commercial aviation from comprehensively covering the Pacific, and allow this sector to develop at a pace that is suitable to the Islanders, and manage the challenge to national interests.

The trauma caused by Air Pacific tainted regional cooperation in the area of regional shipping as well for a number of years. As in aviation, the idea of a regional shipping line was important to increase the frequency of contact with more islands in order to lower the cost of imports and exports. Again, though, high capital costs, and Tonga and Nauru's

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<sup>50</sup> Pacific Islands Forum Secretariat, (2002), Pacific Islands Forum Secretariat Annual Report, Pacific Islands Forum Secretariat, Suva, pp. 12-13.

<sup>51</sup> Pacific Islands Forum Secretariat, (2003), Pacific Islands Air Services Agreement, Background Issues Paper, July 2003, Pacific Island Forum Secretariat, Suva.

reluctance to sacrifice their own lines for an unproven regional concept were stronger arguments against economic integration than the logic of the project. Ultimately, a flexible Memorandum of Understanding was signed to appease competing interests. The Pacific Forum Line was established as an operating company for the pooling of national vessels, so that ownership of the PFL's assets was left in individual countries' hands. However, the PFL required substantial investment to set up, and on going support from governments to make it viable, which only a handful of islands wished to supply because of the perception that national lines better met their needs. The Air Pacific experience engendered scepticism that the benefits would be distributed evenly. In 1995, the PFL was freed from political control to operate as a commercial enterprise, but is still backed up by subsidies.

### *(iii) Evaluation of Sectoral Integration Efforts*

In evaluation of sectoral integration, the FFA has been a successful case because the agency has had a clearly defined role to gather and disseminate information to its members to manage a sustainable resource, negotiate licences and draft fisheries legislation.<sup>53</sup> It has been popular because it deals with a migratory resource, and for this reason has been able to attract foreign funding to make it viable. Furthermore, the demand for its services has increased over time, as cooperation has become more intense and the need for regional coordination has grown to deal with the pressure exerted by outside powers, international law and to present a stronger bargaining position, in response to stronger interest in tuna fishing in the Pacific Ocean. In this sense, the agency has a good track record of distributing benefits to the region in an equitable manner by tightening regulations and adopting agreed standards and minimum terms. DWFNs now realise they cannot disregard PIC policy on fisheries. The FFA also has no decision-making authority, and fisheries assets remain in national hands, so it has avoided the pitfalls of politicisation.<sup>54</sup> Only the Nauru Group challenged the FFA, in response to the informal Forum negotiation style which appeared to compromise national self-determination. The Tuna Convention is perhaps the greatest opportunity and the greatest

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<sup>52</sup> Rt. Hon. John Howard, (2003), Press Release, Regional Aviation and Shipping Scoping Study, 16 August, Prime Minister of Australia, Auckland, Pacific Islands Forum Secretariat, Forum Communiqué, Thirty-Fourth Pacific Islands Forum, Auckland, New Zealand, p. 10.

<sup>53</sup> Neemia, Cooperation and Conflict: Costs, Benefits and National Interests in Pacific Regional Cooperation, pp. 33-36; Fry, *'International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy'*, op cit., pp. 155-59.

challenge to this generally sound track record, because of the higher compliance demands and distribution of costs required by a joint regime with the DWFNS.

By contrast, the area of transport has been much more controversial because it has involved integration in commercial activities. These imply that national governments will have to make greater sacrifices to the regional cause. The stakes were much higher in Air Pacific and the PFL than in the FFA. The result of the failure of Air Pacific was particularly damaging for the approach of Pacific countries to regionalism for a number of years, since the PICs preferred to supplement national projects through shared expertise and coordination. This trajectory has been influenced by fear of the “Fiji hijack.”<sup>55</sup> Fiji, because of its central location in the Pacific, has often possessed an advantage for the location of regional agencies. The University of the South Pacific, Air Pacific and the Forum Secretariat are all based there, as well as the Pacific UN Development Programme. Fiji has also offered attractive terms for locating organisations there. Tiring of the criticism that Fiji received from other islands after the Air Pacific debacle, Ratu Mara strongly advocated host country management of organisations, out of the belief that jointly run projects held up regional development, arguing that “the pace of development should not be determined by the slowest member.”<sup>56</sup> However, these criticisms are perhaps justifiable, since as in the case of Air Pacific, Fiji has been able to nationalise significant regional initiatives, like the Central Medical School and the South Pacific Telecommunications College, financed by the European Community, and employ its own people in these organisations, alienating islanders who could have benefited too. In effect Fiji has become a pivotal state from the benefits which accrue from hosting several organisations, which can undermine regionalism as peripheral states turn elsewhere. Thus, the early experience gained from ambitious regional projects showed that it was better to work at shared specific tasks, to minimise the polarisation of national interests so that regional cooperation in general would not collapse. It is perhaps for this reason that Pacific regionalism has endured, because alternative approaches have been found that achieve a similar level of comitology as more politically intense integration schemes. It is this conclusion which may influence the view held by Haas that the Pacific Way is successful because it begins from a position of mutual understanding to advance

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<sup>54</sup> Crocombe, *The South Pacific*, op cit., pp. 603-05.

<sup>55</sup> *ibid.*, pp. 612-16.

<sup>56</sup> Quoted in Fry, 'Regionalism and International Politics of the South Pacific', op cit., p. 470.

collective interests. However, as the Tuna Convention and PIASA exemplify, the neoliberal reform agenda is altering the contemporary dynamics of Pacific regional cooperation, as will be argued next.

## **V. REGIONAL COOPERATION IN THE AGE OF REFORM**

### **1. Donor Regional Reform Agenda Produces a Stronger Compliance Regime**

Returning to themes outlined in Chapter Three, Sutherland (2000; 2003) has argued that the imperative for regional reform has come from external forces, particularly outside donors, in an attempt to compel the island states to respond to the imperatives of globalisation. In other words, national reforms were shaped by a regional agenda.<sup>57</sup> The reform agenda has been targeted for delivery through the PIF.

As mentioned, aid has been essential for the viability of regional cooperation, but this has meant that island states have not had an incentive to conduct reform, or engage in a dependency-reducing collective self-reliance scheme. This created what the World Bank described as the “Pacific Paradox” – low per capita income, despite possessing high per capita resources. To remedy this situation, the Bank prescribed that the region had to create a policy environment to facilitate private investment. To resolve the Pacific Paradox, the PICs had to adopt policies which would increase exports, deregulation, reform the private sector, finances and labour markets, in the face of the Uruguay Round, the end of the Pacific’s geopolitical significance at the end of the Cold War and the completion of the European single market. The message found resonance with Australia, as previously noted. At the 1994 Forum, Australia put sector-focused reform at the forefront, under the theme of “Managing our Resources,” with attention concentrated on forestry, fisheries and aviation, and an overhaul of the structure of the Forum process, with a Leaders’ Statement aimed at delivering concise decisions rather than general statements. In general, it is indicative of an accelerating trend of a more assertive Australian role in Pacific regionalism.<sup>58</sup> Hence a new framework for regional

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<sup>57</sup> William Sutherland, (2000), 'Global Imperatives and Economic Reform in the Pacific Island States', *Development and Change*, Vol. 31, No. 2, March, pp. 461-66.

<sup>58</sup> Robert Keith Reid, (2003), 'Cover Report: Lording Over the Pacific', *Islands Business*. Vol. 29, No. 9, pp. 16-17.

cooperation with substantially different content was beginning to take shape, from the pressure to adapt to new conditions.

In this context, a formal arrangement was necessary to integrate the key donors into the Forum architecture.<sup>59</sup> In the first instance, it was necessary to develop the reform agenda at the regional level, to make it more acceptable to island cultural and political sensibilities. This has been provided by the institution of the post-Forum Dialogue with Development Partners in 1989, presently numbering 12 participants, including the EU, which allows for comment on progress and concerns at development in the Pacific. In 1995, a comprehensive review was conducted of the Forum which led to leaders adopting a 25 year Vision Statement for enhancing regional cooperation. Another key innovation funded by Australia was the establishment of first the Forum Finance Ministers' Meeting in 1995, subsequently expanded in 1997 to become the Forum Economic Ministers' Meeting with a mission to see that liberal reform was developed and implemented among the FICs. To assist in this, formal biennial stocktakes of reform progress among members were implemented in 2002. Hence, the trend which has been apparent in the last several years has been that the informal, 'soft' compliance regime that had operated in the Forum, characteristic of the consensus politics of the Pacific Way has been steadily eroded by the imperative from outside the region to conform to the neoliberal reform agenda. As a result, Islanders are being forced to adopt a much harsher compliance-inducing regime, which might in time lead to stricter regulation of Pacific regional cooperation. Precedents for this prediction already exist in the Tuna Convention, and the Pacific Islands Countries Trade Agreement (PICTA), which both have legally enforceable provisions.

## **2. Good Governance and Regional Security: Stronger Regional Discipline**

Furthermore, good governance and regional security represent two further compliance regimes that PICs are adjusting to in the reform age. The Biketawa Declaration originated out of the Forum Economic Action Plan, from the first meeting of the FEMM, and the Aitutaki Declaration on regional security, in response to revived concerns about an "arc of instability," which had emerged as a result of the May 2000 coup in Fiji, and one two months later in the Solomons Islands.<sup>60</sup> Biketawa also responds to the donor

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<sup>59</sup> Sutherland, *Regional Governance, Peace and Security in the Pacific: A Case for Give and Take*, pp. 6-7.

<sup>60</sup> *ibid.*, pp. 13-14.

agenda to address public accountability and transparent leadership, but balanced against respect for specific national and local circumstances, a veiled reference to the Pacific Way. In doing so, Biketawa makes a point about the need not only for good governance, but democracy, which may be at odds with various island political systems, such as the controversy which has surrounded the Tongan monarchy or the integrity of Samoan democracy.<sup>61</sup> At the 2003 Forum, the Leaders took the tension between tradition and democracy into serious consideration when they reaffirmed the primacy of their commitment to the rule of law when they adopted the Forum Principles of Good Leadership, but also acknowledging regional sensibilities to traditional forms of authority.<sup>62</sup>

Regional security has been an item of deep concern in the Pacific since the Forum's endorsement of the South Pacific Nuclear Free Zone, and the first coups in Fiji in 1987. Significantly, Biketawa has provided a facility for dealing with regional conflict in a way which challenges the previous Forum convention of non-interference in the domestic affairs of other members. In response to members' request for assistance, the Forum may take steps to address the underlying causes of tension, including ethnic tension, socio-economic disparities or land disputes. In 2003, the Regional Assistance Mission to the Solomon Islands (RAMSI), initiated and funded by Australia, albeit, put the Biketawa security provisions into operation for the first time. According to the declaration, the RAMSI will be a long-term intervention to build the capacity for good governance by restoring law and order, and achieve social and economic recovery.<sup>63</sup> The corollary to enhanced regional security provisions though is the cost of implementing them. A Regional Security Fund is envisaged to cover the costs. In a similar vein, the Nasonini Declaration underlines a regional commitment to fully implement the Honiara Declaration of 1992, and to comply with UN Security Council Resolution 1373 and the OECD Financial Action Task Force Special Recommendations to combat international terrorism and trans-national crime; including money laundering and drug trafficking. Moreover, the declaratory nature of Biketawa over the region continues an approach

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<sup>61</sup> Lawson, Tradition versus Democracy in the South Pacific: Fiji, Tonga and Western Samoa op cit.; Elise Huffer, and Asofou So'o, (eds.), (2000), Governance in Samoa, Asia Pacific Press and Institute of Pacific Studies, Suva.

<sup>62</sup> Pacific Islands Forum Secretariat, Forum Communiqué, Thirty-Fourth Pacific Islands Forum, Auckland, New Zealand, Annex 2, pp. 16-18.

<sup>63</sup> *ibid.*, Annex 1, p. 14.



begun in 1997 that establishes clear principles for FICs to adhere to, but without endangering regional cooperation in these areas by making naked criticisms of various countries in the Forum.<sup>64</sup>

Both declarations therefore signify that the extent of reform has gathered pace since 1997 at the influence of outside donors and the high value that is placed on regional security and stability as a fundamental prerequisite for development. The mutual impact of these reforms on the sovereignty of island states is evident, in that they have been required to make substantial structural changes to their governments and economies quite rapidly to meet outside expectations<sup>65</sup> The appointment of a new Secretary General in 2003, an Australian, Greg Urwin, to the top Forum office to replace Noel Levi may not inspire hope of better dialogue with island civil society. Fears were rife at the time that Australia was trying to advance its own security agenda for the Pacific through the Forum and that island priorities were being downgraded. Urwin's appointment was not by consensus as has been the way of the Forum, but by vote.<sup>66</sup> Urwin's appointment also means that the RAO for the PACP is not from an ACP state, raising a minor complication for the Pacific PCP. More importantly, the beginning of Urwin's tenure corresponds with another comprehensive review of the Forum architecture, to take stock of where the islands stand in relation to the challenges of globalisation.<sup>67</sup>

### **3. The 2004 Eminent Persons' Review and Challenges to the Pacific Way**

Therefore, it may be surmised that Pacific regional cooperation is undergoing its most challenging transformation since independence. While the highly institutionalised voluntarism of the 'traditional' island politics is still apparent, there is definitely a

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<sup>64</sup> Sutherland, 'Global Imperatives and Economic Reform in the Pacific Island States', op cit., p. 468.

<sup>65</sup> Sutherland argues this is evidence that donors lack appreciation of the "complexities of the Island tradition," for example that they do not understand how much the first level domestic dynamics of regional politics is influenced by indigenous rights. This perhaps means that voices besides those of the elites who have driven Pacific Way politics need to be incorporated into the processes of regional cooperation, placing the onus on donors to help support capacity building projects for improving dialogue with civil society. The Regional Public-Private Sector Consultation is the most tangible attempt at this, which can put its views to the Forum Officials Committee, which is fed into the agenda of the Ministerial Meetings. Sutherland, *Regional Governance, Peace and Security in the Pacific: A Case for Give and Take*, op cit., p. 15.

<sup>66</sup> Although the FICs would have preferred an island nominee to become Secretary-General bickering between Tonga and Samoa at the last stage of the selection process meant a compromise could not be agreed over which of their nominees should go forward to counter Urwin, allowing the Australian to clinch the majority. Reid, 'Cover Report: Lording Over the Pacific', op cit., pp. 20-21.

conjuncture developing between the Pacific Way and the global imperatives of the regional reform agenda, of which the PCP is one element. Overall, Islanders have to meet more rigorous performance targets in order to obtain donor assistance, and are required to participate in regional and international arrangements which stretch their capacity for representation. New commitments for democratic and accountable governance and regional security provide further challenges to the rhetoric of traditional politics, which elites have used the Pacific Way as a defence against criticism. Perhaps the appointment of Urwin as Secretary-General of the Forum and more stringent directives on peace and security in the Pacific show that the politics of consensus and compromise of the Pacific Way can no longer occupy an exclusive position in defining the approach of islanders to regional, and international, cooperation. Nevertheless, the FICs have willingly taken these steps, and the Forum's clout has been enhanced as it has become the regional mechanism through which neoliberal reforms are being implemented and monitored.

Amongst these tensions, the Forum leaders agreed at the 2003 Forum meeting to conduct a thorough review of the Forum and its Secretariat, as a result of their discussions of the present and future challenges facing their countries, which may warrant further pooling of resources in the Forum. The review followed a similar process to the 1995 exercise, as it was again conducted under the auspices of an Eminent Persons Group, headed by Sir Julius Chan.<sup>68</sup> The group published its recommendations in April 2004, which were subsequently adopted by the Forum leaders at a special retreat. Although it sought to consult civil society, it has been questioned how far the review incorporated sentiment on regionalism from the grassroots of Pacific society, and did not simply consult a small range of elites, because of the short timeframe over which it was conducted.<sup>69</sup> Nevertheless, the Review, entitled "*Pacific Cooperation, Voices of the Region*," underpins intensified regional cooperation as the key recommendation for dealing with the four key challenges to the region: economic growth, sustainable development, good governance and security, under the overarching theme of globalisation. It lays out a vision for the Pacific (Figure 5.4), and a "Pacific Plan," which sketches out the possibilities to create stronger and deeper links between countries of the region, as the

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<sup>67</sup> Pacific Islands Forum Secretariat, Forum Communiqué, Thirty-Fourth Pacific Islands Forum, Auckland, New Zealand, op cit., p. 10.

<sup>68</sup> *ibid.*, p. 10.

<sup>69</sup> Malakai Koloamatangi, (2004), 'Unease Over Union', Christchurch Press, Monday 26 April, p. 15.

report argues that current levels of cooperation are insufficient to assist vulnerable island states to cope with the challenges listed above.

“The bottom line is that future inter-country relations will need to be closer and mutually supportive if the region is to avoid decline and marginalisation.”

There is no doubt in our minds that the future prosperity of the region will depend on our acknowledging our inter-connectedness, and finding new...means of harnessing our collective capacities. New thinking on the relationships between sovereign states may be required. Where practical, the pooling of regional resources in a range of areas of governance would offer improved efficiencies in...economic development.”

(Pacific Islands Forum Eminent Persons Group, 2004, p. 10 & p. 21)

Thus, the rationale of the Pacific Plan is that PICs must depend on each other to survive and prosper. The Plan also recommends that the Forum should assess all existing regional cooperation arrangements, and establish a Pacific Plan Taskforce in 2004 to develop the Plan further. In particular, the Forum Secretary-General and the Chair would be given enhanced powers of initiative in regional affairs, and the functions of the Secretariat and the CROP would also be streamlined to allow to them to implement regional programmes more efficiently. Therefore, the Pacific Plan is a clear departure from the norms of informal regionalism. However, while ambitious, it is unlikely it will be the harbinger of an EU-style “Pacific Union,” as island leaders are not prepared to proceed with deep integration yet.<sup>70</sup> The Plan’s most important function is to encourage leaders to accept interdependence as the guiding principle of the regional political agenda. The most significant outcome is likely to be that regional organisations will be reformed to enhance coordination of initiatives that aid national interests, and link regionalism to

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<sup>70</sup> Note the comments of the President of Kiribati, Anote Tong, during the Forum Special Leaders’ Retreat, held at Auckland, 5-6 April 2004:

“Frankly, we don’t see ourselves being able to absorb that (deeper political union) at this time. And I don’t think that that is being proposed. And I don’t think that should be proposed for the next few years.”

And also the Fijian Prime Minister, Laisenia Qarase:

“I think we should leave it at that (an idea). We should not rule it out; it’s an option that can be considered some time in the future.” Australian Broadcasting Corporation, (2004), ‘Pacific Leaders Meet in Auckland to Discuss Pacific Plan’, ABC Go Asia Pacific, Australia, 6 April 2004, p. accessed at: <http://www.abc.net.au/asiapacific/news>, 6 April 2004; Tunnah, Helen and Angela Gregory, (2004), ‘Pacific Vision sees Security in Sharing’, The New Zealand Herald, 7 April, accessed at: <http://www.nzherald.co.nz/story>, 7 April 2004.

**Figure 5.4: The Pacific Way:  
A Pacific “Vision”**

“Leaders believe the Pacific region can, should and will be a region of peace, harmony, security and economic prosperity, so that all its people can lead free and worthwhile lives.

- We treasure the diversity of the Pacific and seek a future in which its cultures, traditions and religious beliefs are valued, honoured and developed.
- We seek a Pacific region that is respected for the quality of its governance, the sustainable management of its resources, the full observance of democratic values, and for its defence and promotion of human rights.
- We seek partnerships with our neighbours and beyond to develop our knowledge, to improve our communications and to ensure a sustainable economic existence for all.”

– Adopted as a guide to Pacific Islands Forum actions and policies in The Auckland Declaration by the Pacific Islands Forum Special Leaders’ Retreat, Auckland, New Zealand, 6 April 2004.

(Pacific Islands Forum Eminent Persons Group, 2004, p. 8)

Pacific communities, particular attuning the Forum’s activities more to the needs of the SIS.<sup>71</sup>

In a bold move, the review has also substantially altered the meaning of the Pacific Way. The report affirms the values of the Pacific Way, as it has been understood as an idea that there is a Pacific way of doing things that is open to, but different from, the Western world, and as a way to find unity and consensus, implying values of honesty, mutual respect and tolerance. However, the review argues that this definition must be broadened to reach into communities, and also deal with a sensitive issue for Pacific leaders, failure of governance and corruption. Therefore, the Pacific Way has been imbued with several Western liberal values. It should “denote a style of governance that is respected for its inclusiveness, effectiveness and freedom from corruption,” and “be people-centred and democratic in spirit.”<sup>72</sup> Hence, the Pacific Way is again being touted as a founding principle for the new vision for the region adopted by the Forum. However, it is proposed

<sup>71</sup> Pacific Islands Forum Eminent Persons Group, Pacific Cooperation, Voices of the Pacific, The Eminent Persons’ Group Review of the Pacific Islands Forum, April 2004, op cit., p. 8.

its meaning should now reflect the new challenges and norms imposed upon its designers; again indicating the growing significance of global imperatives as a driving force behind the new philosophy of Pacific regionalism.

## **VI. THE POLITICAL ECONOMY FRAMEWORK APPLIED: AN ASSESSMENT OF THE NATURE AND STATE OF PACIFIC REGIONALISM**

From this extensive survey, it is apparent that the development of Pacific regionalism can be divided approximately into three phases. The first is the era of cooperation where the metropolitan powers led regional cooperation initiatives in order to manage the decolonisation of the Pacific. However, the mechanisms for regionalism under this model laid the foundations for the era of self-determination, where Pacific Islanders began to construct their own regional institutions, and the Pacific Way was articulated as a regional approach to cooperation, to constitute a Pacific identity. Next, as Fry argues, an era of “collective diplomacy” became the *modus operandi* of Pacific regionalism, as the South Pacific Forum became the nexus of regional cooperation as the majority of Pacific island states became independent. Finally, as the politics of donor relations with the Pacific has forced globalisation and reform onto the agenda of the PICs, Pacific regional cooperation is being subjected to a much stricter rule-based regime, where Pacific Islanders are called upon to make sacrifices in order to participate with the Western world.

If the categories outlined in Figure 2.3 are applied to the Pacific, it is possible to make the following observations about the political economy of Pacific regionalism, expanded and summarised in Figure 5.5. The first point to stress is that the PICs are not attempting political integration in the sense of transferring power to a supra-national authority or creating a federation. In this sense it resembles the regional arrangements based on economic integration typical of developing world integration schemes. However, what appears to be distinctly different about Pacific regional cooperation, from the empirical record, is that Pacific Islanders have not been concerned with economic integration as a strategy for cooperation. For Pacific island leaders, it appears that other factors such as

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<sup>72</sup> *ibid.*, p. 20.

**Figure 5.5: Political Economy Framework Applied to  
Contemporary Pacific Regional Cooperation**

<i>Actors</i>	<i>Real Names</i>	<i>Theoretical Application</i>	<i>Nature and State of Integration</i>
<b>Endogenous Factors</b>			
Regional Integration Scheme(s)	Pacific Islands Forum (PIF)	Functional integration – rejection of economic integration	Regional cooperation in specific sectors; Seeks consensus, avoids highly political projects;
(Member States)	Pacific Community (SPC)	2003, economic integration	National interests advanced through collective action – lack of general ‘regional interest’ Non-Political, <i>but</i> 2003, positive steps to economic integration – PICTA & PACER ratified
Regional Hegemon (Paymaster)	Fiji Papua New Guinea	Benefits accrue to stronger poles of growth and MDCs in regional integration schemes Distribution of host site of regional institutions a key indicator	Fiji led Forum initiatives; Appropriated institutions; Central location; Most natural resources in Fiji and PNG
<b>Exogenous Factors</b>			
Regional Powers	Australia New Zealand	Influence the costs and benefits to individual states and to regional organisations of particular regional policies or projects; Policy agenda setting; Facilitate viability of regionalism	Are full members of regional cooperation schemes; Involved in provision of aid and technical expertise; Fund regional initiatives Have attempted to play role of regional hegemon, but limited by traditional island consensus politics Stimulate neoliberal reform – rules-based compliance regime for PICs
Hemispheric and Global Powers	Post-Forum Dialogue partners Non-regional members of SPC OCT Parent states		Possess formal institutional architecture for consultation with regional decision-making bodies; Fund regional cooperation initiatives; Bilateral aid; Bilateral trade agreements (eg. in Fisheries) Stimulate neoliberal reform – rules-based compliance regime for PICs
Non-State Actors	Civil Society Private Sector		Generally little engagement; Regional Negotiating Mechanism e.g. Regional Trade Facilitation Programme Forum Dialogue Meeting

perceived cultural affinity, shared historical experience, aspirations for political and economic viability as well as the collective rejection of neo-colonialism have been more important rationale for cooperation than the imperative for economic integration.<sup>73</sup> The SPC is still limited to technical matters, and the architects of the Forum strongly rejected an economic union as a model of cooperation for the reasons outlined earlier. Economic integration as a strategy for self-reliance among small islands is nonsense if the peculiar constraints imposed by being small prevent states from realising the benefits of economies of scale. Furthermore, experiments in regional cooperation in commercial endeavours, such as Air Pacific and to a lesser extent the PFL demonstrate that the costs to national interests and rivalry among PICs has been a strong disincentive to commit to comprehensive integration schemes. Indeed, as stressed, the participation of donors and the key role played by New Zealand and Australia is vital for the effective functioning of the Forum and regional programmes, which also mean their priorities and concerns form part of the equation in the regional mix of island state concerns. Therefore, to use the terminology developed earlier, it may be concluded that Pacific regional cooperation has been, to date, generally typified by less comprehensive ‘non-integration.’ On Nye’s typology of integration, the Pacific probably can be characterised as a “fairly effective degree of limited functional cooperation,” where the costs to national interests are limited.<sup>74</sup>

It was earlier hypothesised that a linked expansive-distributive dependency reducing programme for regional policy packages is the most effective integration scheme for development, because of the positive relationship between comprehensive measures and functioning of a regional integration scheme. In the Pacific comprehensiveness has not been a barrier to functionality, since limited functional integration has been the predominant mechanism of expansive integration. Instead, the distributive mechanism of cooperation has often been the location of regional institutions, as the phenomenon of the “Fiji hijack” draws illustrates. Regional cooperation has endured where other more comprehensive schemes, such as in the Caribbean, have suffered from divisions between

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<sup>73</sup> Neemia, Cooperation and Conflict: Costs, Benefits and National Interests in Pacific Regional Cooperation, op cit., pp. 14-15.

<sup>74</sup> Herr, Institutional Sources of Stress in Pacific Regionalism, op cit., p. 4.

the MDCs and LDCs.<sup>75</sup> In the Pacific, this kind of polarisation of the distribution of benefits has been lessened because economic integration was rejected and collective diplomacy was adopted. The Forum placed emphasis on commitment to regional schemes that involved a minimal sacrifice of sovereignty, in fact promoting projects that would serve joint national interests, as opposed to subsuming national designs into a general regional interest. This is why a term like collective diplomacy accurately captures the essence of Pacific regionalism, since regional action has been aimed at collective projects which were intended to recast the relationship between the region and the rest of the world in the PICs favour, rather than trying to construct an expansive integration scheme that would have required significant redistributive mechanisms. Certainly, in the formative years of independent Pacific regionalism, cooperation would have most likely collapsed under such heavy demands. In other words, the PICs did not accept the prevailing wisdom for comprehensive integration, but instead elected to move regionalism forward by pursuing workable forms of cooperation in specific sectors that have brought benefits to most participants and which do not represent a huge cost to national interests.

Nevertheless, a regional paymaster has emerged in the guise of Fiji, with some competition from PNG, which has polarised perceptions about the benefits of functional cooperation. Furthermore, the cleavages between big and small states and the salience of culture area regionalism have prevented a strong regional interest developing from below in the Pacific. Regional cooperation has undoubtedly been a 'revolution from above.' Fortunately, donor support of regionalism has reduced the possibilities of controversy about how the costs of cooperation should be distributed.

## VII. CONCLUSIONS

To summarise then, it is possible to say that the kind of cooperation which has occurred in the Pacific has been based primarily on limited sectoral integration in areas of mutual benefit to PICs through loose intergovernmental fora; primarily through the aegis of the PIF and the SPC. Because islanders have preferred collective diplomacy as a strategy for

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<sup>75</sup> W. Andrew Axline, (1979), *Caribbean Integration, The Politics of Regionalism*, Frances Pinter, London; W. Andrew Axline, (1994), *The Political Economy of Regional Integration*, Pinter Publishers, London.



development, the idea that the Pacific Way is a unique contribution to integration theory is perhaps flawed, as islanders have specifically avoided areas of politically intense cooperation to work on areas where consensus is easy to achieve. Therefore, in relation to the political economy framework, the regional policy packages that have been adopted in the Pacific may still be categorised as expansive, and generally aimed at dependency reduction, but the limited comprehensiveness of Pacific regionalism means that it is not a case of a linked expansive-distributive integration scheme. The peculiar mix of limited functional cooperation and the permeable boundaries between regional member states and exogenous influences from outside powers on regionalism has produced the illusion of deep integration, when in fact Pacific regionalism, has been casual in its organisation. However, all of these assumptions are open to debate, as the global imperatives of regional reform agenda imposes a new set of rules from above for regional cooperation, and the Eminent Persons' Review has articulated an agenda for more intensive integration in the Pacific. These new strategies will politicise cooperation as integration advances towards the upper end of the comprehensiveness scale, testing the balance between the 'traditional' political forms of regional cooperation and challenge of participating in the global political economy. It is to such technical concerns that attention turns to next.

## **Chapter Six**

# **The Challenges to the post-Cotonou Agreement Process in the Pacific:**

## **The Potential for Island Economic Integration and EPAs**

### **I. INTRODUCTION**

Thus far, the macro historical processes that have shaped how the Pacific has been defined as a region have been the focus of investigation. The previous chapter confirmed the most potent strategy for regional cooperation in the Pacific is when national interests are maximised; otherwise political consensus for integration may dissipate. It was also noted that the Forum has consistently rejected economic integration schemes and instead pursued a strategy of limited functional integration in specific areas of mutual interest, and has relied substantially on the involvement of regional and global powers to help sustain cooperation, to alleviate the pressures of regional integration. These features perhaps make Pacific regionalism distinctive from other integration initiatives in the Caribbean and Africa, which have stressed economic integration. However, the post-Cotonou negotiations to conclude regional Economic Partnership Agreements, and not least of all the local PICTA and PACER agreements, over the next decade, have assigned Pacific regionalism with the task that was dismissed for so long: the construction of a Free Trade Area as a keystone of closer regional union. The purpose of this chapter is to assess whether the Pacific has the potential for deeper economic integration, particularly with respect to the region-to-region model embodied in the EPA framework, as this invokes an intense range of legal compatibility issues with WTO rules on regional trade areas. The lack of deep regional integration in the Pacific and the particular demands of integration among small island developing states perhaps suggests the Pacific EPA process is an example of EU “pseudo policy,” where decisions are made based on

insufficient knowledge for their actual enactment.<sup>1</sup> To phrase the problem another way, although regionalism and regional economic integration are touted as weapons against the challenges of globalisation, is the EU applying regionalism as a solution to development purely because it is an area in which it possesses comparative advantage? Consequently, the relevance of the Pacific to Europe and the physical capacity of the region to trade are subsequent points which question the validity of a Pacific EPA.

Thus, this chapter is designed to examine the technical ‘mechanics’ of economic integration in the Pacific, utilising and extending the theoretical discussion of economic cooperation developed in Chapter Two. Hence, the first section of the chapter will more clearly define the rationale and controversy surrounding EPAs. The ACP regions and the EU together face tensions involved with reconciling the compatibility of region-to-region FTAs with the multilateral free trade framework, while recognising the special needs of the ACP LDCs included under Cotonou. Consequently, Pacific EPA negotiations must take account of the technical feasibility of the model under WTO GATT Article XXIV rules for Regional Trade Agreements (RTA). The following section turns to discussion of economic integration in the Pacific. Of particular interest is whether trade preferences offer sustainable value to the region, since they have been a significant factor in expanding PIC industry and trade. While the Lomé Convention is relevant, consideration of the SPARTECA agreement is also essential. However, since it is already assumed that a Pacific FTA will be established, with the ratification of PICTA in April 2003, the academic question of whether or not an FTA should be constructed in the region is a moot point. Instead, it may be more relevant to evaluate what form an FTA might take in the Pacific so that the detrimental impact of free trade is minimised for these small island developing states. In this way, both the extent that the Pacific represents an economic region and the applicability of an EPA can be evaluated. Moreover, the Pacific case should illustrate that although EPAs utilise trade and economic integration as a vehicle for development, the implications of such agreements are not limited to economic matters.

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<sup>1</sup> G. Gustafson, (1983), 'Symbolic and Pseudo Policies as Responses to Diffusion of Power', *Policy Sciences*, Vol. 15, pp. 269-287p. 276, cited in Holland, Martin, (1987), 'Understanding European Political Cooperation', *Journal of Common Market Studies*, Vol. 25, pp. 307-08.

## II. THE CONTROVERSY SURROUNDING REGIONAL ECONOMIC PARTNERSHIP AGREEMENTS

### 1. The Commission's Rationale for Regional Partnerships

In Chapter One, it was described how the Cotonou reforms affirmed regionalism as the basic unit of future EU-ACP relations. Consequently, Economic Partnership Agreements have become the Commission's preferred vehicle for cooperation in trade. The EPAs have entrenched the model of region-to-region reciprocal trade spelt out in the 1996 Green Paper. The requirement for reciprocity is the natural interpretation of the provisions of GATT Article XXIV, which among other conditions, refers to elimination of barriers to "substantially all trade" between the members of an RTA (Figure 6.1).<sup>2</sup> The EPAs will allow EU-ACP trade relations to be compliant with WTO rules on reciprocal trade, and will simplify the framework for managing the partnership by dealing with regions, rather than bilateral relations with each ACP state. For the PACP, it would be to their advantage if reciprocity was not required, but strategies of non-reciprocal trade have become difficult to justify for the EU, which means, like the Cotonou reforms themselves, the EPAs are not just about trade.

The EPAs are outlined as one of the key components of the Commission's development strategy,<sup>3</sup> in relation to the EU's own trade regime of region-to-region agreements with groups of developing countries, including Mercosur, Latin America and the Mediterranean (Table 6.1). Trade related assistance will be executed at the regional level,

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<sup>2</sup> Robert Scollay, (2002), Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, A Report for ACP Secretariat and the Pacific ACP States, 28 2002, ACP-EU Trade Relations, available at <http://www.acp-eu-trade.org/documents/Scollay%202002%20-%20Pacific%20EPA%20Impact%20study.pdf>, accessed August 2003, p. 8.

<sup>3</sup> The Commission's philosophy of development, fostering sustainable, growth and poverty reduction, through regional integration and free trade, was addressed specifically in the its Communication to the Council and the European Parliament in September 2002, entitled *Trade and Development, Assisting Developing Countries to Benefit from Trade*. The Commission considers that although developing countries have increased their share of world trade, through such mechanisms as the Lomé preferences, they are lagging behind because their exports are concentrated in a limited number of products, they have unskilled labour forces, and most skilled labour is employed in the low-assemblage stages of international production, where value-added benefits accrue offshore. Drawing on analysis from the World Bank, the Commission argues that higher levels of participation in international trade and investment, as well as a strong emphasis on education and institutional development will create stronger human capital and therefore country-owned strategies that will achieve the TEU objective of poverty reduction. World Bank, (2002), Globalisation, Growth and Poverty, The International Bank for Reconstruction and Development /The World Bank, Washington DC and Dani Rodrik, (2002), *'Trade Policy Reform as Institutional Reform'*, in World Bank (ed.), Development, Trade and the WTO - A Handbook, The International Bank for Reconstruction and Development/The World Bank, Washington DC, cited in Commission of the European Communities, (2002), Communication to the Council and the European Parliament: Assisting Countries to Benefit from Trade, COM(2002) 513 final, 18 September, European Community, Brussels, p. 10.

<b>Table 6.1: Typology of EU Regional Trade Agreements</b>		
<i>Type of Trade Regime</i>	<i>Name of Agreement</i>	<i>Countries Involved</i>
Single Market	European Economic Area (EEA)	Iceland, Liechtenstein, Norway
Customs Union		Turkey, Andorra, San Marino
Free Trade Areas		e.g. Switzerland, Israel, South Africa, Mexico, Chile, Morocco, Palestinian Authority
South-South-North 'WTO-plus' regional Free Trade Agreements	Economic Partnership Agreements (EPA)	ACP regions Mercosur
Partnership & Cooperation Agreements (MFN Treatment)		Russia (prior to enlargement on 1 May 2004, also included former Soviet republics)
Non-reciprocal: contractual preferences	Mediterranean agreements Lomé Conventions	Algeria, Egypt, Jordan, Lebanon, Syria ACP
Non-reciprocal: autonomous preferences	Generalised System of Preferences (GSP)	Other developing countries & members of CIS; Albania, Bosnia
Purely MFN treatment		Australia, New Zealand, Canada, Japan, Taiwan, Hong Kong, Singapore, United States, Korea

Source: Based on Lamy, 2002, p. 1404.

<b>Figure 6.1: Provisions of GATT Articles XXIV:8(b) and XXXVI:8 Relevant to EU-ACP Relations</b>
<p>GATT Article XXIV:8(b)          'A free trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories';</p> <p>GATT Article XXXVI:8          'The developed contracting countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties'.</p> <p>Explanatory Note: As this provision does not sanction discrimination between "less-developed contracting parties," it may be held that non-discrimination is implicitly assumed. In this case, an FTA or CU with a group of developing countries which discriminates against other DCs would not be sanctioned. Hence, this explains the requirement for EPAs to be compatible with Article XXIV in the absence of flexibility provisions.</p>

Source: cited in Onguglo and Ito, 2003, p. 13 & Scollay, 2002, p. 8.

“whenever appropriate,” to complement and reinforce activities at the national level. Together, these EU activities introduce a “South-South-North” approach to integration. In the first instance, the EU defines South-South integration as the idea that RTAs formed among the DCs will allow them to reap the benefits of scale economies and efficiency, described by Vinerian Customs Union theory, as well as increasing their attractiveness to Foreign Direct Investment, to stimulate competition among peers, to secure greater bargaining power, and to consolidate peace and security. The EU sees this as a way to deal with the problems of small economies and the general vulnerability of developing states, as well as to provide an incentive to form, or perhaps to lock states into, regional solutions to common political and institutional problems, where convergence may save resources and enhance responses, in the areas mentioned above.<sup>4</sup> South-South integration should more easily lead to deeper integration with the North, as developed and developing world economies mutually open. Additional benefits include the “locking in” of reforms, technology transfers and stability of market access. In theory then, this rationale should be a profitable strategy for the PICs to apply. However, in general, the potential of South-South-North integration may not be realised, because of the need to reform governance and policy in DCs, as well as addressing regional security problems. These issues are no less relevant in the Pacific.

## **2. Economic Partnership Agreements Explained**

### ***(i) The EPA Framework***

Hence, the Commission has defended its rationale that the developing world can benefit from regional integration, but how will EPAs specifically realise this general European vision? The Cotonou Agreement is not a trade agreement. It only went so far as to describe in detail the form and timetable for concluding future trade agreements. The specifics of the trade partnership have been left to be worked out in the region-to-region negotiations, which must be completed by 1 January 2008, when the seven year window, or transition period, allowed by the WTO in 2001 for EPA negotiations, expires. Except for with the PACP, this phase of negotiations commenced between the EU and the ACP between October 2003 and April 2004, following immediately after the premature conclusion, in September 2003, of the first phase of EU-ACP wide negotiations of the

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<sup>4</sup> Commission of the European Communities, Communication to the Council and the European Parliament: Assisting Countries to Benefit from Trade, op cit., p. 24.

guidelines for regional EPA talks; one year after the PCP began.<sup>5</sup> Consequently, the fundamental principles of the EPAs reflect the balancing act which the Commission is playing to satisfy most parties which have a stake in the PCP. They are described below.

(i) **Partnership:** Firstly, as their name implies EPAs are fundamentally about partnership, reaffirming the symbolism of associationism in EU-ACP relations. Although the North-South nature of regional negotiations retains an asymmetric power relationship, mutual obligations have nevertheless been reformulated to tackle trade barriers primarily in the ACP. However, since 99 per cent of all ACP exports now have tariff and quota free access, the burden of liberalisation does not fall to Europe. This is because the nature of the partnership is now firmly reciprocal. The EPAs require the ACP states to transform their individual trade preferences granted by Europe into FTAs, or else the 40 year EU-ACP partnership may cease to exist.

(ii) **Flexibility:** Flexibility is the second principle, which acknowledges that the EPAs, as *WTO-plus* FTAs, serve a development function, for sustainable development and poverty reduction in appreciation of the constraints on ACP economies to complete liberalisation. Differentiation is also at the core of flexibility, as it will allow the Commission to apply Special and Differential Treatment (SDT) to take into account the different development levels of partners with respect to the timetable for implementation of tariff reductions or how quickly certain economic sectors will be included. Somewhat paradoxically, the 39 ACP LDCs, as defined by the UN Human Development Index, are not required to sign an EPA. Instead they can choose to keep their existing level of access. Flexibility and differentiation may potentially complicate the regional integration process, by treating countries belonging to the same region differently. In the Pacific, Cotonou classifies five states as LDCs and seven are also given special treatment under the provisions for island states (Articles 85 & 89) (Table 6.2).

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<sup>5</sup> The European Commission and the ACP published a Joint Declaration in October that established guidelines for phase II of EPA negotiations, but failed to reach complete consensus with the ACP over several issues relating to WTO compatibility. See Eurostep, (2003), 'EU Gears up for Free Trade Negotiations with West Africa and Central Africa without Having Met the Request of ACP for Binding Outcome of First Phase of ACP-EU Negotiations', Proactive File, No. 328, 26 September.

**Table 6.2: Pacific ACP States Classified as  
Island or Least-Developed Countries  
(Cotonou Agreement, Annex VI)**

<i>Island and LDC ACP State status</i>	<i>Island ACP State status only - MDC PACP states</i>	<i>No Official ACP status under Cotonou – PACP states acceded 2000 or later</i>
Kiribati Samoa Solomon Islands Tuvalu Vanuatu	Fiji Papua New Guinea Tonga	FSM RMI Palau Niue Cook Islands Nauru East Timor

Note also excluded French OCTs – New Caledonia, French Polynesia and Wallis and Futuna.  
The former two would most likely be treated as Island states under Cotonou.

Source: Commission of the European Communities, 2000, p. 158

(iii) **Regionalism:** Although the Commission still considers the possibility of negotiating with individual countries that are eligible to join EPAs, the EU's preference is to negotiate partnership agreements with regional integration schemes in each ACP region.<sup>6</sup> Among other challenges, each ACP region must begin the process of economic integration amongs. If an economic integration scheme does not exist or is failing to liberalise, the Commission would be unlikely to begin EPA negotiations with that particular regional entity, and according to Article 37.6 of Cotonou, would consider the best alternative arrangements for states unable or unwilling to negotiate an EPA.<sup>7</sup> This is because the Commission wishes to deal with regional integration schemes that are moving towards advanced stages of cooperation. In the Pacific, Cotonou has increased the salience of integration.<sup>8</sup> As yet, no states in the ACP have opted to negotiate with the EU bilaterally, or sub-regionally. However, this point will be returned to in discussion of the outcome of PACP-EU EPA negotiations.

(iv) **Link to the WTO:** Finally, as EPAs will take into account the results of the Doha Development Agenda in 2005, the EPAs assume WTO rules as a floor. This is

<sup>6</sup> For instance, the 1996 Green Paper only mentioned "Regional Economic Partnership Agreements," but the Cotonou Agreement dropped the word 'regional,' so as not to rule out other possibilities in concession to the ACP. Stefan Szepesi, (2003), Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, Masters Thesis, Maastricht University, p. 8; Sanoussi Bilal, (2002), The Future of ACP-EU Trade Relations: An Overview of the Forthcoming Negotiations, February, Economic Centre for Development Policy Management, Maastricht, accessed at <http://www.ecdpm.org>, 18 March 2004.

<sup>7</sup> Szepesi, Preparing for the Inevitable? The African, Caribbean and Pacific Countries and Trade Negotiations with the European Union, op cit., p. 8.

<sup>8</sup> Malakai Koloamatangi, (2003), 'EU, Cotonou and EPAs: the View from the Pacific Islands', The Courier, No. 200, September-October, pp. 14-15.



especially important as EPAs shall cover not only trade in goods and agriculture, but eventually services and technical barriers to trade, such as sanitary measures, and other areas mentioned previously in regulation and competition.<sup>9</sup> EPAs, then, are not an end in themselves. However, as the WTO agenda is a key consideration, EPAs must be compatible with rules on developing-developed world trade. How to make EPAs WTO compatible will be discussed in relation to possible reform of the WTO provisions for RTAs.

Therefore, the positive effects of EPAs are that they should encourage efficient use of aid and resources, deepen the integration and trade relationship between the EU and the ACP and allow developing economies to experience benefits in growth. However, EPAs may also increase the opportunities for European exporters to 'dump' products into ACP markets, stand in the way of ACP states diversifying their export markets, and most importantly remove valuable revenue raised from tariff liberalisation. Of most significance to the PACP, is that it forces a set of quite disparate ACP states to construct an FTA within a telescoped timeframe, prior to 2020.

Like the other ACP states, the PACP will have to be careful not to lose concessions which they already possess and they will be stretched by the simultaneous demands of EU negotiations, inter-regional negotiations and the completion of the Doha round of negotiations in the WTO. It should also be readily apparent from this survey of the philosophy of EPAs that the fulcrum for the viability of regional integration as a development strategy for the EU is the health and the progress towards economic integration of the particular regional integration scheme subject to an EPA. However, the EPA template implies that certain regions where integration is weak are compelled toward closer union. Therefore EPAs represent both the carrot and the stick in EU development policy, and will require a significant amount of political will to achieve their broad objectives. That the second phase of negotiations is under way shows the desire is strong to maintain the partnership, but a question remains how well ACP regions can manage the tensions of integration.

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<sup>9</sup> Sanoussi Bilal, (2002), Implications of the Doha Development Agenda on the EPA Negotiations, COMESA Secretariat, Lusaka, Zambia, accessed at <http://www.eu-acp-trade.org>, 18 March 2004, p. 2.

## *(ii) Alternatives to EPAs*

Given the asymmetric character of EU-ACP relations and the Cotonou negotiations in general, acceptance of reciprocity was perhaps the only feasible option left open to the ACP, in order to keep at least a margin of preference, in relation to non-ACP states; and to keep future possibilities to negotiate alternative trade arrangements open.<sup>10</sup> This strategy may be particularly relevant in the context of the Pacific, where trade volumes with Europe are not significant, and preferences will be necessary during the transition to FTAs and RTAs.<sup>11</sup> Indeed, the PACP and its sister ACP regions are caught between a rock and a hard place. Options outside of EPAs which are WTO compatible do exist, but they are not as kind to the ACP (Table 6.3). Without an EPA, the two most likely alternatives are the EU's Generalised System of Preferences (GSP) or its Everything But Arms Initiative (EBA).

Under the GSP, the non-LDC ACP states would receive the same tariff rates as all other developing countries that trade with the EU. The disadvantages of this scheme, besides losing the unique status of ACP membership, are that even though the value of trade preference has eroded, the tariff and non-tariff reductions and exemptions under the GSP are significantly less generous than keeping the Lomé preferences.<sup>12</sup> The GSP also covers far fewer products, notably excluding 'sensitive' agricultural products that have zero tariffs under Lomé. The commodity protocols would also definitely disappear under the GSP. Although, the GSP is an accepted part of the WTO framework, overall it does not offer the same security, as the GSP is an offer to the DCs, not a negotiated relationship.

Parallel to the EU-ACP reforms, the EU introduced in March 2001 the "Everything But Arms" initiative (EBA) to allow non-reciprocal duty free and quota free access to the

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<sup>10</sup> Cf. John Ravenhill, (1993), *'When Weakness Is Strength: The Lomé IV Negotiations'*, in William Zartmann (ed.), *Europe and Africa: The New Phase*, Lynne Rienner, Boulder, Colorado & London analyses the asymmetric power imbalance in EU-ACP negotiations and European Centre for Development Policy Management, (2001), *Cotonou Info Kit*, European Centre for Development Policy Management, Maastricht, accessed at: <http://www.ecdpm.org>, 24 February 2003, No. 14.

<sup>11</sup> Roman Grynberg, and Bonapas Onguglo, (2002), *A Development Agenda for the Economic Partnership Agreement between the EU and the Pacific ACP (PACP) A Concept Paper*, EU-Least Developed Countries Network, accessed at <http://www.eu-ldc.org/downloads/PACP.doc>, April 2003.

<sup>12</sup> Michael Davenport, , (2002), *Preliminary Analysis of Certain Issues for an ACP Position in Post-Cotonou Negotiations*, in particular *WTO-Compatibility and the New EU GSP Scheme*, September, Economic Affairs Division of the Commonwealth Secretariat, accessed at: <http://www.eu-acc-trade.org>, 14 July 2003.

<b>Table 6.3: Preferential Trading Schemes and their Coverage under WTO Provisions</b>		
	<i>Non-Reciprocal</i>	<i>Reciprocal</i>
<i>Generalised</i>	Generalised non-reciprocal preferences <ul style="list-style-type: none"> <li>- Enabling Clause 2 (a) and (d)</li> <li>- <i>GSP</i></li> <li>- <i>EBA (Special LDC preferences)</i></li> </ul>	Generalised (ie. multilateral) reciprocal tariff reduction <ul style="list-style-type: none"> <li>- GATT I:1 (MFN) and GATT XXVIII</li> </ul>
<i>Non-Generalised</i>	Non-Generalised non-reciprocal preferences WTO waiver required <ul style="list-style-type: none"> <li>- <i>ACP-EU Partnership (Cotonou) to 2007</i></li> <li>- Fourth Lomé Convention</li> <li>- LDC preferences granted by developing countries</li> </ul>	Non-Generalised reciprocal preferences <ul style="list-style-type: none"> <li>- FTAs, CUs and interim arrangements</li> <li>- GATT XXIV or Enabling Clause 2(c) or (d)</li> </ul>

Notes: Options provided under the ACP–EU Partnership Agreement are indicated in *italics*. MDCs stands for developed country members of a regional trade agreement (FTA or CU); and DCs for developing country members.

\* The proposed ‘enhanced GSP option’ may violate the Enabling Clause if preferences are ‘enhanced’ only for ACP countries in a discriminatory manner, without being extended to non-ACP developing countries.

\*\* Special LDC preferences given by developing countries have been granted a GATT waiver (‘Preferential Tariff Treatment for Least-Developed Countries’ Decision on Waiver adopted on 15 June 1999 (WT/L/304)), since coverage of such preferences under the Enabling Clause proved to be contentious.

Source: Onguglo and Ito, 2003, p. 17.

<b>Table 6.4: GATT/WTO Coverage of Regional Trade Agreements (RTAs) by Membership</b>	
<i>Type of RTA</i>	<i>GATT/WTO Coverage</i>
RTAs among developed countries only - EU; EFTA	Article XXIV
RTAs involving both developed and developing countries (“Mixed RTAs”) - e.g. <b>EPAs</b> ; EU-Morocco; EU-Mercosur; EU-South Africa; <b>PACER*</b>	<b>Article XXIV</b>
RTAs among developing countries only - e.g. Mercosur; Melanesian Spearhead Group (MSG); <b>PICTA</b> ; COMESA; UEMOA	Enabling Clause

\* Although not specifically a trade agreement, PACERs provisions will in time lead to a mixed RTA between the FICs with Australia and New Zealand.

Source: Based on Onguglo and Ito, 2003, p. 20.

common market for all products except weapons from every LDC. Conceivably, this is an alternative for the 39 ACP LDCs. Only trade in bananas, sugar and rice will be fully liberalised by 2009. However, the prices under EBA are similar to subsidised domestic EU producers, less than under the Commodity Protocols. Like the GSP, the EBA is also a

unilateral offer that could change in the future. Should an LDC graduate from its status, or if exports to the EU rise above normal levels, a Safeguard Clause in the EBA allows the EU to withdraw preferences. The EBA therefore at once destroys the principle that geography mattered in defining who was entitled to special preferences, and further complicates the implications of “positive differentiation” introduced in Cotonou.

Conceivably, half the ACP could have opted for the status quo. Instead, as will certainly be the case in the Pacific, differentiation will require the regional partnership agreements to discriminate against differing levels of development. They are two concepts which sit uncomfortably within the Cotonou framework. Consequently, which ever way an ACP state might turn, structural adjustment is certain, and losses of various kinds are likely, so overall it is more rational to belong to the partnership framework. The implications of the GSP and the EBA offer an explanation for why none of the ACP regions have thus far dissented from the regional EPA model for negotiations. However, if the PACP/FICs cannot negotiate an EPA, then ‘alternative trade agreements,’ which the Commission will review the possible scenarios for in 2004 for non-LDCs, might result in a different partnership agreements to the EPA template. Yet, it has already been demonstrated that the two existing alternatives for the PACP states will not facilitate the continuation of the EU-ACP relationship.

In order to preserve the advantages of a comprehensive trade and development partnership, a compromise will have to be found within the EPA architecture, but this will require that the liberalisation is managed in a way which acknowledges the PACP states need for flexibility in the context of Article XXIV (Table 6.4). Therefore, the remainder of the chapter will investigate the political economy of EPAs with respect to technical compatibility in the WTO and how the model of South-South-North integration might be adapted to meet the specific needs of islanders.

### **III. THE POLITICAL ECONOMY OF EPAs: WTO COMPATIBILITY**

Recalling the political-economy framework developed and applied so far, a significant question to consider regarding the Pacific PCP is how an EPA could contribute towards the creation of a linked expansive-distributive integration scheme, since it was concluded this was the ideal model of integration for developing states. Consequently, if a North-

South trade agreement such as an EPA is to fulfil its mandate to have a positive impact on both development and economic growth, expansive trade liberalisation measures must first of all be compatible with WTO rules, so as to avoid accusations of illegality from other members.

## **1. How to Make EPAs WTO Compatible: Issues and Prospects**

In October in the Joint Declaration issued at the conclusion of the first phase of EPA negotiations, the EU and the ACP delivered the following statement on WTO compatibility:

“There has been convergence of views that EPAs must be compatible with WTO rules prevailing and will need to take account of the evolutionary nature of relevant WTO rules.”

(Eurostep, *Proactive File*, No. 330)

This acknowledges that the fundamental context of EPAs is the WTO process, since the ACP will seek flexibility and special treatment for EPAs to respect the WTO reform agenda to avoid difficulties with immediate liberalisation and reciprocity. However, the Doha WTO Ministerial, in November 2001, launched plans to substantially redraft the rules affecting developing countries, parallel to the EPA process. This creates uncertainties for both sides, which have to ensure trade agreements are non-discriminatory before the Doha programme is concluded in 2005. GATT Articles I and XXIV were introduced in Chapter One. As well as continuation of commodity protocols, the most important subject on the agenda for the EPA negotiations is clarification of the provisions for developing countries under Article XXIV. Consequently, it is necessary to elaborate on why RTAs (FTAs and Customs Unions, for example) are considered as distortions of the non-discrimination principle in free trade.

Although GATT Article I is sacrosanct, RTAs are acceptable to the WTO if they aim to lower trade barriers among a limited number of members. This ensures that regional agreements are not adopted by countries as a shield against liberalisation, but rewards those with a genuine desire to integrate. Although RTAs can be stepping stones to multilateral free trade, they are by nature discriminatory. RTA rules under GATT Article XXIV are designed to bring benefits to signatory countries, but within the MFN framework that prevents South-South RTAs from forming protectionist blocs against the

rest of the world, which might actually lower welfare for the bloc. If the member states continue to import from excluded countries, keeping domestic prices the same, this would stifle trade creation, but a welfare loss would also be incurred from increasing trade diversion, as members remove barriers within their borders away from cheaper external imported goods.<sup>13</sup> With the proliferation of RTAs, over-lapping membership can also complicate trade relations with third countries. Hence, if RTAs are not monitored through a multilateral framework the risk of distortions in regional markets could dramatically increase, as well as problems in implementation, where there are conflicts between countries with interests in more than one regional integration scheme.<sup>14</sup> As such, the benefits of RTAs can be ambiguous, especially if internal distortions also undercut their regional economic impact. A triple condition in GATT Article XXIV regulates regional agreements. The criteria are:

- RTAs must lead to an increase in the overall protection of the region against third countries.
- They must cover “substantially all trade” (and not exclude ‘sensitive’ products) (paragraph 8 (b)).
- They must be established “within a reasonable period of time” (paragraph 5 (c)).

Similarly, the General Agreements on Trade in Services (GATS) Article V sets out the rules for trade in services in FTAs (Figure 6.2). In 1979, the GATT signatories decided to allow derogations to the MFN clause in the treatment of developing countries. This was called the Enabling Clause. It too continues to apply as part of GATT 1994 under the WTO. The clause permits preferential trading agreements among developing countries. In particular, paragraph 2(c) allows preferential trade in goods. Even though an ‘Understanding’ on RTAs was reached during the Uruguay Round in 1994, there are a range of topics to be resolved, made contentious by their ill-definition. These include product coverage, the length of the transition time, and even the adoption of an agreed

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<sup>13</sup> Maurice Schiff, (2002), Regional Integration and Development in Small States, F1, The International Bank for Reconstruction and Development/The World Bank Development Research Group, Washington DC, accessed at: [http://www.acp-eu-trade.org/biblio\\_regionalintegration.php](http://www.acp-eu-trade.org/biblio_regionalintegration.php), 24 July 2003, pp. 7-8.

<sup>14</sup> World Trade Organisation, (2004), Regional Trade Agreements: Scope of RTAs, Washington DC, accessed at: [http://www.wto.org/english/tratop\\_e/region\\_e/scope\\_rta\\_e.htm](http://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm), 6 April 2004.

definition of an RTA. Clarification of these points would help determine whether EPAs should be notified under the Enabling Clause or Article XXIV.<sup>15</sup>

<p align="center"><b>Figure 6.2: GATS Article V</b></p> <p align="center"><b>Economic Integration in Services and Provisions for Flexibility</b></p>
<p>1. This Agreement shall not prevent any of its Members from being a party to or entering into an agreement liberalizing trade in services between or among the parties to such an agreement, provided that such an agreement:</p> <p>(a) has substantial sectoral coverage(1), and</p> <p>(b) provides for the absence or elimination of substantially all discrimination...through:</p> <p>(i) elimination of existing discriminatory measures, and/or</p> <p>(ii) prohibition of new or more discriminatory measures,</p> <p>either at the entry into force of that agreement or on the basis of a reasonable time-frame...</p> <p>2. In evaluating whether the conditions under paragraph 1(b) are met, consideration may be given to the relationship of the agreement to a wider process of economic integration or trade liberalization among the countries concerned.</p> <p>3.(a) Where developing countries are parties to an agreement of the type referred to in paragraph 1, flexibility shall be provided for regarding the conditions set out in paragraph 1, particularly with reference to subparagraph (b) thereof, in accordance with the level of development of the countries concerned, both overall and in individual sectors and sub sectors.</p>

Source: World Trade Organisation, 2004.

<sup>15</sup> The EU is content with conventional interpretations of WTO standards. The Understanding clarified a "reasonable length of time" to mean a maximum of 10 years to establish an FTA or a CU. The Joint Declaration confirmed that the standard originally established by the EU-South Africa FTA, of 90 per cent all of trade, without exclusion of any significant sector is still flexible enough for EPA negotiations. However, the measure of trade is not defined; or which proportion of trade should be liberalised between parties, for example in terms of tariff lines or volume. Davenport (2002, 11) also questioned how worthwhile pursuit of this magic figure was, since if tariffs on sensitive products are set high enough trade will fall to negligible levels and the remaining trade in goods is probably of less consequence. More fundamentally a definition of what constitutes an RTA has not been reached because WTO members which are party to RTAs obviously do not wish to condemn their own agreements as inconsistent with international obligations. However, if it is not attempted then it will be difficult for EPAs to fulfil development function, if the rules on FTAs and Preferential Trade Agreements (PTA) are not explicitly differentiated. The fundamental conclusion though, is that with the advent of the Doha round, which for the first time links development issues into trade negotiations, there is the opportunity to reform and clarify the rules that deal with compatibility of RTAs with MFN, so that a balance can be struck between flexibility and liberalisation. See Theodore H Cohn, , (2000), *Global Political Economy, Theory and Practice*, Longman, New York, p. 248-49; Szepesi (2003) op cit., p. 9. Cf. Sam Laird, , (2002), 'A Round by Any Other Name: The WTO Agenda After Doha', *Development Policy Review*, Vol. 20, No. 1, pp. 41-62, pp. 52-53.

## 2. The Paradoxes of Flexibility and Reciprocity for WTO Compatibility

How might these dilemmas be resolved? The Doha Ministerial Declaration gives the ACP the unique opportunity to engage in negotiations to introduce reforms that address their specific trade and development interests in the formation of EPAs, because RTA reform is subject to the Doha work programme.<sup>16</sup> The Doha Declaration provides for “negotiations aimed at clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements.”<sup>17</sup> As discussed at length, the ACP states need policy flexibility to adjust their economies to benefit from freer trade. However, as EPAs are intended to create FTAs involving the EU as well, to be legal against WTO standards they must be notified to the WTO under Article XXIV. Unfortunately, as shown, Article XXIV does not have a clause dealing with SDT for RTAs involving developing countries. In other words, the provisions for SDT contained in Part IV of GATT cannot be applied to the EPAs as they were to the Yaoundé and Lomé Conventions. Reciprocity once sought cannot be waived.<sup>18</sup> Furthermore, at the moment, North-South RTAs cannot be notified under the Enabling Clause, as this is intended to benefit only South-South arrangements. Thus, at present there is no provision for RTAs between developed and developing countries so that they can comply with Article XXIV, except for the vague interpretations used until now. ‘De facto flexibility’ is no longer appropriate protection for EPAs against challenge in the WTO. Thus, there is a strong case for reform to render flexibility, the code word for SDT, to North-South RTAs. Onguglo and Ito (2003), and also Bilal (2002), have identified three possible options for reform:

- (i) Reform of **Article XXIV** to introduce flexibility.
- (ii) Reform **Part IV** of GATT
- (iii) Reform the **Enabling Clause**.

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<sup>16</sup> The Doha negotiating agenda consists of seven key items: implementation, by 1 January 2005; agriculture; services; market access for non-agricultural products; trade and the environment. It gives the opportunity for DCs to work collectively in the WTO to seek more balanced treatment of these issues which concern them, and to address the asymmetries towards developed countries in the initial WTO agreement at Uruguay. A. Panagariya, (2002a), ‘Developing Countries at Doha a Political Economy Analysis’, The World Economy, Vol. 25, No. 9, p. 1210 & pp. 1230-32.

<sup>17</sup> World Trade Organisation, (2001), Ministerial Declaration, WT/MIN(01)/DEC/1, 20 November 2001, Washington DC, accessed at:

[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm#rules](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm#rules), 30 April 2004, paragraph 29.

<sup>18</sup> Bonapas Onguglo and Taisuke Ito, (2003), How to Make EPAs WTO Compatible? Reforming the Rules on Regional Trade Agreements, (ECDPM Discussion Paper 40), 17 September, European Centre for



Reform of the Enabling Clause might seem a technically simple solution, as it would only involve extending the scope of the clause to encompass South-South-North RTAs. This would ensure maximum flexibility for DCs and exclude EPAs from scrutiny under Article XXIV. However, the Enabling Clause has been under a cloud of doubt with challenges from some WTO members, and incorporation of North-South RTAs under the Clause might threaten the validity of unilateral preferences under the GSP as well as South-South RTAs. The EPA process relies on building partnerships with established regional integration schemes. If the Enabling Clause is threatened, then it is to the detriment of mixed member FTAs. More importantly, this option could not guarantee reciprocity from developed parties to the RTA. Secondly, reform of Part IV would mean introducing an amendment to make it possible to apply non-reciprocity granted in multilateral negotiations to a regional context. This is highly unrealistic. Article XXXVI:8 in Part IV which covers this is applicable to multilateral trade negotiations, and could hardly be applied to the operation of RTAs.

Thus, the strongest option is to revise and alter Articles XXIV:5(c) and 8(a) and (b) to allow flexibility for DCs. Without these specific modifications, *ad hoc* interpretations would have to be sought.<sup>19</sup> To accomplish this, interpretation and operation of flexibility would have to be explored, so that the “substantially all trade” requirement results in a lesser degree of market openness. In this way, intra-regional trade can be protected for an adequate time period, possibly requiring a longer transition time than 10 years. Furthermore, a precedent for introducing SDT into Article XXIV exists, as a paragraph similar to the provisions on flexibility in GATS V:3(a) could be adopted. However, the content of EPAs is also dependent on the outcome of Doha, in which case there is some uncertainty with respect to the form and level of regional flexibility needed for ACP states, unless agreed prior to the conclusion of Doha.<sup>20</sup> Otherwise differences between the two negotiation outcomes, in timeframe or product coverage, would have to be re-evaluated in the WTO for EPAs.

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Development Policy Management (ECDPM), Maastricht, accessed at: <http://www.ecdpm.org/>, 29 October 2003, pp. 6-7.

<sup>19</sup> *ibid.*, pp. 66-69.

<sup>20</sup> *ibid.*, p. 32.

#### IV. THE POLITICAL ECONOMY OF PACIFIC ECONOMIC INTEGRATION

Hence, major conformity issues confront the PACP/FIC states in the context of EU-ACP negotiations. To cooperate in this intense legal environment with the EU will require a deep commitment to integration in the Pacific. This can work to the PACP states' advantage if an FTA is part of a wide-ranging policy package that tackles the problems raised by reciprocal trade in vulnerable economies. A Pacific FTA, even if driven by political imperatives, must have a development edge. The extent to which the PACP can construct a reciprocal trade agreement with Europe will determine whether rules relating to preferential trade or free trade will shape the revised EU-PACP partnership. In other words, the issue at stake is whether an EPA, an "alternative trade agreement," or a hybrid model will form the basis for partnership in the Pacific, since the desire for partnership is perhaps greater than the rationale that reciprocal free trade is the optimal development strategy for the Pacific.<sup>21</sup> If not, this raises the possibility that the EU-PACP partnership may have to be concluded under the provisions of Article 37.6 of Cotonou, which leaves the option of alternatives to EPAs open, but gives the Commission discretion over its form (Figure 6.3). The extent to which the Pacific constitutes an economic integration area will be analysed through a brief sketch of island economic integration, including the major economic integration schemes. The economic characteristics of the members of an RTA and the characteristics of their existing international trading relations are also relevant factors which influence the costs and benefits of constructing an expansive-distributive agreement.<sup>22</sup>

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<sup>21</sup> On this last point, note in particular the opinion of the Pacific Network on Globalisation (PANG), which considers strongly that the both the PICTA and PACER agreements are not in Pacific islanders' interests, and have been designed with the interests of development partners in Australia, New Zealand and Europe in mind. Pacific Network on Globalisation, (2002), A Critical Response to PICTA, PACER and the Pacific Islands Forum's Social Impact Assessment, PANG, the Pacific Network on Globalisation, accessed at [http://www.ecrea.org.fj/webpages/publications\\_files/ESJP/picta.doc](http://www.ecrea.org.fj/webpages/publications_files/ESJP/picta.doc), 19 January 2004.

<sup>22</sup> Robert Scollay, (2001), Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands' Proposed Free Trade Agreement, *Policy Issues in International Trade and Commodities Study Series*, No. 10, United Nations Conference on Trade and Development (UNCTAD), New York and Geneva, p. 3.

**Figure 6.3: “Alternative Trade Agreements” for EPA Negotiations: Cotonou Agreement, Article 37.6**

In 2004, the Community will assess the situation of the non-LDC which, after consultations with the Community decide that they are not in a position to enter into economic partnership agreements and will examine all alternative possibilities, in order to provide these countries with a new framework for trade which is equivalent to their existing situation and in conformity with WTO rules.

Source: Commission of the European Communities, 2000, p. 26.

### **1. Current Economic Characteristics, Trends and Conditions in the Pacific**

As discussed, the PIF is now the premier vehicle of Pacific regional cooperation and the platform for regional economic integration, although it is not the only example of economic integration. The 14 FICs are all small economies, but among each other they still represent a heterogeneous group. The population was just over 7 million in 2002, of which over 80 per cent reside in Papua New Guinea and Fiji (Figure 6.4). The Pacific islands, as have been discussed in relation to SDT, have a special status for the purposes of global trade and development cooperation, since they are vulnerable, small island states, separated by vast distances. Moreover, the 2003 FEMM noted that economic growth in the FICs continues to be uneven. After recording growth of less than 1 per cent in 2001, down from 6.6 per cent a year earlier, the FICs recorded a “modest” recovery of 1 per cent for 2002. With an annual population growth rate of 2.7 per cent, per capita, GDP declined in 2002 for a third consecutive year. The Asian Development Bank forecasted GDP for the region to grow at an average rate of 2.4 per cent in 2003. However, unpredictable international events can easily upset the delicate balance of trade for FICs.<sup>23</sup>

Generally, the picture of FIC economic performance tends to be clouded (Table 6.5), however, because of severe fluctuations in world prices of their key exports, including sugar, palm oil, coffee, gold, minerals, copra and kava. Samoa, a golden child of the World Bank, experienced GDP growth of 8 per cent in 2001, but only registered growth of 1 per cent in 2002. Fiscal problems persist in nearly all of the PICs. Nauru and the

**Table 6.5: Key Economic Indicators and Projections for FICs, 2002-04**

	<i>GDP Growth (% per year)</i>					<i>Inflation (% per year)</i>	
	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2002</i>	<i>2003</i>
Cook Islands (2001)	7.9	5.1	0.3	1.5	3.2	3.9	3.4
Federated States of Micronesia (2000)	4.4	1.1	0.8	2.4	1.5	1.0	1.5
Fiji (2001)	-3.2	4.3	4.4	5.1	3.6	0.9	3.0
Kiribati (1999)	0.2	1.5	2.8	2.5	2.3	5.1	-
Nauru	-	-	-	-	-	-	-
Niue (1998)	-	-	-	-	-	-	-
Palau (2000)	-	-	-	-	-	-	-
Papua New Guinea (2001)	-1.2	-3.4	-0.5	1.0	2.0	11.8	9.0
Republic of Marshall Islands (2000)	0.7	2.1	4	3	2	2	2.5
Samoa (2001)	6.9	6.2	1.3	3.6	3.5	9	8
Tonga (2000)	6.5	0.5	1.6	2.5	2.7	10.4	10
Tuvalu (1999)	3	4	2	2	1.8	2.6	3
Vanuatu (2001)	2.7	-2.7	-0.3	1.3	2.2	2.0	2.5

Source: Pacific Island Forum Secretariat, 2003, p. 8

Solomon Islands represent two severe cases, as well as Papua New Guinea, which, although possessing the richest economy in the region, finds as much as difficulty as smaller PICs in providing basic services such as primary education and health care. The blame for these problems lies with corruption in the government bureaucracy and inefficient management of resources.<sup>24</sup> However, political instability, more prevalent in Melanesia, with a number of coups, two as recent as 2000, and lack of discipline in the armed forces and police in Fiji, the Solomon Islands and Vanuatu have had a real impact on growth and confidence in PIC economies. Rising populations also mean there is a discernable, but not yet dangerous trend towards decreasing per capita GDP.

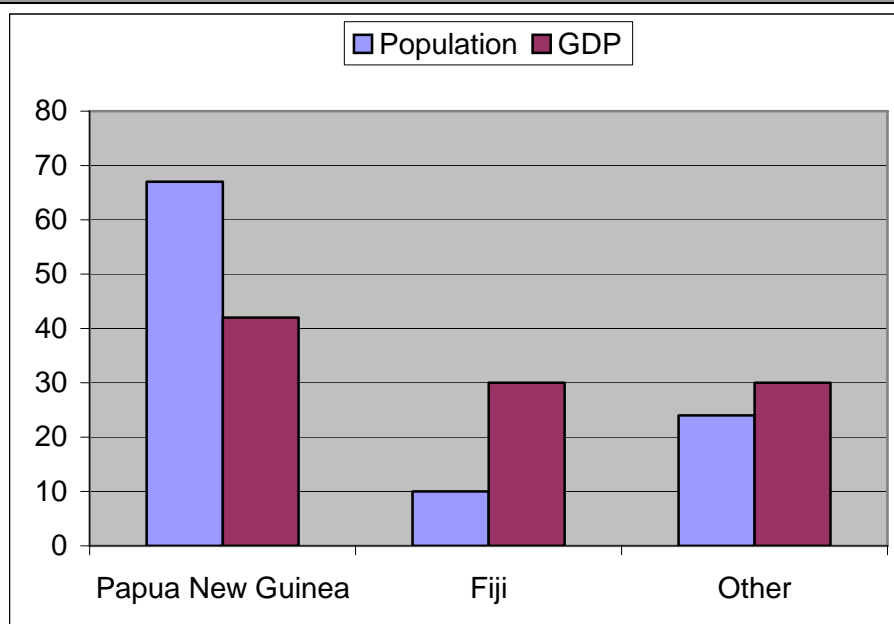
Based on a comprehensive study of FIC national statistics by New Zealand economic advisor, Robert Scollay in the mid-1990s,<sup>25</sup> a number of specific trends and

<sup>23</sup> Pacific Island Forum Secretariat, (2003), Economic Outlook Briefing Paper, Forum Economic Ministers Meeting, Session 3, [PIFS(03)FEMM.06], 11-12 June 2003, Forum Economic Ministers Meeting (FEMM), Pacific Islands Forum, Majuro, Republic of Marshall Islands, p. 2.

<sup>24</sup> Satish Chand, (2003), 'Economic Trends in the Pacific Island Countries', The Pacific Economic Bulletin, Vol. 18, No. 1, pp. 3-4.

<sup>25</sup> Unless otherwise cited, figures in this subsection are drawn from Robert Scollay's 2001 UNCTAD report, which draws on work commissioned by the FEMM in 1998 to study options for free trade among the FICs. See Scollay, Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands' Proposed Free Trade Agreement, op cit..

**Figure: 6.4: Percentage Distributions of Population and GDP in Forum Island Countries (2002)**



Source: Inman and ANZ Banking Group, 2003, p. 1.

characteristics can be determined. The combined FIC GDP has been measured at approximately 13.5 per cent of New Zealand's, of which again, Fiji and PNG accounted for around 83 per cent. Hence, intra-regional trade is quite immature. Current figures indicate that it still only represents 2 per cent of total trade, up from 1 per cent in 1995.<sup>26</sup> Specifically, only four FICs, Samoa, Tuvalu and Kiribati and the Cook Islands have a percentage of imports and exports with other FICs above 10 per cent (Table 6.6). As for trade with non-FICs, Australia and New Zealand account for the lion's share of FIC imports, in most cases well above 50 per cent of imports for each FIC. Exports to non-FICs are more diversified, however. This is despite preferential access to Australian and New Zealand markets through the South Pacific Trade and Economic Cooperation Agreement (SPARTECA), reflecting the inability of FICs to competitively supply these markets, as well as perhaps the attractiveness to supply other markets. The United States and Japan have significant shares of FIC exports, as of course does the EU. The EU takes 57 per cent of Kiribati's exports, 26 per cent of Fiji's, 21 per cent of Samoa's and 15 per

<sup>26</sup> Commission of the European Communities, (2002), *Pacific ACP European Community Regional Strategy Paper and Regional Indicative Programme for the period 2002 – 2007*, European Community, Brussels, p. 11; Michael Moran, (2003), *Pacific Islands Free Trade Agreements: Briefing Paper for the Pacific Islands Forum Leaders Meeting*, Oxfam International, Auckland, p. 6.

cent of PNG's. The export orientation of trade also suggests that there might be similar variability or disinclination for FICs to trade with one other.

Limited production structures also weaken the potential for regional trade. Agriculture, fishing and forestry account for anywhere between 15 to 27 per cent of GDP in most cases, while the service sector accounts for as much as two-thirds. Manufacturing has developed little, because of the small market size making diversification and competition

<b>Table 6.6: Intra-regional Trade Profiles of PACP States/FICs</b> <b>1998 Figures, Forum Secretariat, Own Currency Value</b>			
	<i>Merchandise Imports from PACP States (millions)</i>	<i>Total Merchandise Imports (millions)</i>	<i>Imports from Pacific ACP as Proportion of Total</i>
Cook Islands	8.891	73.274	12.1%
FSM	16.000	99.728	0.02%
Fiji	5.489	1,366.634	0.40%
Kiribati	12.226	61.025	20.03%
Nauru	0.885	87.885	1.01%
Niue	0.837	23.530	3.56%
Palau	1.095	12.164	9.00%
Papua New Guinea	165.000	83,263.000	0.20%
Marshall Islands	0.006	1.529	0.39%
Samoa	42.187	296.425	14.23%
Solomon Islands	20.552	590.868	3.48%
Tonga	7.758	107.956	7.19%
Tuvalu	1.426	6.770	21.06%
Vanuatu	1,267.000	13,758.000	9.21%
<i>Average: Simple</i>			7.28%
<i>Weighted</i>			2.18%

Source: Commission of the European Communities, 2002, p. 49.

inefficient in goods. Only Fiji and Samoa, have developed significant manufactures in textiles and automobile parts, due to the stimulus of trade preferences offered under SPARTECA. In other FICs, manufacturing is less than 5 per cent of GDP, which immediately shows that the scope for trade in goods is extremely narrow across the FICs, with most potential residing solely in Fiji, which reinforces its place as a regional paymaster or a pole of concentration of the benefits of integration. Further compounding the problem of trade in goods is that even if sanitary and phyto-sanitary standards can be raised and the frequency and cost of transport improved, the FICs produce similar products in the key sectors noted, representing a disincentive for regional trade. Trade in services may be an avenue to pursue, especially to rationalise cooperation in the tourist

industry. However, as noted, in order for collective gains to be made, PIC will have to be convinced of the logic and see past the prestige which accrues from national ownership of services and facilities.<sup>27</sup>

Furthermore, tariff revenue forms a substantial proportion of the tax base in FIC economies (Table 6.7), which an FTA will inevitably erode, depending on the amount of total trade that will be affected and its distribution across tariff classes. With respect to WTO compatibility, the options for FICs, in relation to the options outlined above, will be constrained because although a FIC-only FTA matches the criteria of a South-South RTA, which can be notified under the Enabling Clause, once developed partners are included, as discussed, the agreement must be compatible with GATT Article XXIV, for trade in goods, and GATS Article V, should trade in services also be included.<sup>28</sup>

<b>Table 6.7: Import Duties as Percentage of Revenue for PACP States – Selected Years</b>			
	<i>Import Duties as Percentage of</i>		
	<i>Total Tax Revenue</i>	<i>Government Revenue Minus Grants</i>	<i>Total Government Revenue</i>
Kiribati (2000)	61.0	17.9	14.2
Vanuatu (2001)	40.0	36.4	33.5
Tuvalu (2001)	48.11	11.5	7.7
Niue(2000)	23.2	-	-
Tonga	*64.8	-	-
Cook Islands (2000/01)	20.4	22.9	24.5
Republic of Marshall Islands (2001)	26.0	17.9	6.4
Fiji (2001)	22.6	16.1	16.1
Samoa (2000/01)	17.71	15.5	
Palau (2001)	25.1	15.8	10.1
Federated States of Micronesia (2000)	24.4	11.4	4.2
Papua New Guinea (2001)	3.2	3.0	2.6

\*unofficial estimate

Scollay, 2002, p. 53.

In summary, the extremely small size and limited scope of the FIC market immediately poses two potential immediate problems for integration. The first is that the potential for gains from economies of scale are extremely small. The second is the lack of resources to facilitate the implementation and administration of an RTA. Nevertheless, intra and inter-

<sup>27</sup> Helen Hughes, (2003), Aid Has Failed the Pacific, Issue Analysis, No. 33, 7 May 2003, Centre for Independent Studies, Sydney.

regional economic integration is on the agenda for FICs. The more rigorous requirements of GATT Article XXIV must be met, because of the extra-regional network of relationships that FICs are party to, and because of the openness of their economies to the processes of regionalisation. Thus, FICs should seek to reform the Article to include SDT through the Doha round, as WTO negotiations continue. In this case, EU technical assistance and support would be an invaluable investment for the success of EPAs generally.

## 2. Rent

Besides, basic trade in goods, another feature of the economic profile of the Pacific is the role of economic rents. Rents, in economic terms, are defined to be a payment to any factor of production above its opportunity cost.<sup>29</sup> Firstly, recalling the propositions about island economies, many PICs have actually benefited from dependency through the provision of rents that otherwise would render competitive industry and investment impractical, in the form of aid transfers from regional and global powers. Metropolitan governments ploughed significant resources into PICs to build up infrastructure. However, with decolonisation and independence, the impetus for statist development declined.<sup>30</sup>

Consequently, Pacific industries and firms became protected by import substitutions, but high wages, distance and input costs meant that tariffs were introduced to allow PIC products to remain competitive. As a result, it is difficult to attract foreign direct investment into economies which lack a competitive edge. High tariffs cost more to the PICs balance of payments than they save.<sup>31</sup> The current picture of tariff rates in the Pacific shows that Tonga, Tuvalu, Niue Kiribati and Vanuatu have the highest effective tariffs (Table 6.8). Most others are moderate to low, but these are boosted by “sin taxes” on alcohol and tobacco. Failure to collect all tariffs may reduce effectiveness of high rates, as in Tonga. Still, there is great variation in tariff rates among FICs.

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<sup>28</sup> Scollay, Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands' Proposed Free Trade Agreement, op cit., pp. 10-11.

<sup>29</sup> Grynberg and Onguglo, A Development Agenda for the Economic Partnership Agreement between the EU and the Pacific ACP (PACP) A Concept Paper, op cit., p. 155.

<sup>30</sup> Geoffrey Bertram, (1999), *'Economy'*, in Moshe Rapaport (ed.), The Pacific Islands, Environment and Society, The Bess Press, Honolulu, pp. 338-39.

<sup>31</sup> Hughes, Aid Has Failed the Pacific, op cit., pp. 14-15.



**Table 6.8: Average Effective Tariff Rates in PACP States**  
(%) Selected Years

Kiribati (1999)	***20.46%
Vanuatu (2000)	18.15%
Tuvalu (2001)	16.61%
Niue (1998)	14.45%
Tonga (1999)	**13.9%
Cook Islands (2001)	10.38%
Republic of Marshall Islands	*9.00%
Fiji (2001)	8.88%
Samoa (2001)	8.65%
Palau (2000)	6.91%
Federated States of Micronesia (2000)	6.06%
Papua New Guinea (2001)	1.96%
* estimate	
** unofficial estimate	
*** provisional estimate using exchange rate A\$1.00 = US\$0.55	

Source: Scollay, 2002, p. 26.

Nevertheless, the public sector has generally not contracted due to rent transfers, and represents a significant employer. Consequently, when the public sector is booming, there is less incentive to expand local productive activities in agriculture or in the private manufacturing sector. This is because the public sector is the main conduit and beneficiary of rent, namely foreign aid. The dominance of this sector of the economy reinforces high exchange rates created by ‘unrequited’ rent transfers, which do not require a reciprocal payment, in PIC’s balance of payments. Thus the public sector stands to benefit, since it is concerned primarily with non-tradable activities.<sup>32</sup> Rent income is therefore an active factor in the erosion of trade in goods, as rent transfers have become an essential part of the economy. Hence a controversy has been raised as to whether it is better to simply manage the rent boom, by attempting to enhance PIC claims for assistance, or to cut foreign aid in favour of better macroeconomic management.

Australian academic Helen Hughes (2003) argues that assistance should be lessened since aid has failed the Pacific, because islanders only consume aid and do not make progress to become independent of it. Hughes cites the Bauer hypothesis, which regards the “fungibility” of aid, or in other words the substitutability of foreign aid for capital, as its most counterproductive aspect. Fungibility enables governments to spend aid monies on their own objectives, swelling political and bureaucratic establishments. Entrepreneurs

<sup>32</sup> Patrick Laplante, (1997), ‘Dutch Disease in the South Pacific: Evidence from the 1980s and Beyond’, *Pacific Economic Bulletin*, Vol. 12, No. 1, pp. 84-96.

are deflected from making money through private investment into earning public service salaries. When there is only aid or resource rents to distribute, consumption levels from those benefiting from rents become high, but not the rest of society.<sup>33</sup> In summary, aid distorts the economy and benefits the elites, which is demonstrably true of PICs, according to Hughes. However, given the enormity of grappling with the globalisation agenda, and the extent of dependence of official remittances and aid to Pacific economies, it is unlikely that aid could be dispensed with. Moreover, the requirements of participation in the WTO and the negotiations with the EU require external assistance to facilitate regional integration initiatives. Furthermore, the PCP through the RSPs and individual Country Papers target specific projects, and fund regional integration processes to address the indiscriminate dispersal of assistance, which was noted as one of the weaknesses of Lomé.

More significantly, then, perhaps it must be acknowledged, as Bertram (1999) has done, that mainstream theory on modernisation is less applicable to the Pacific. Classical economics argues that economic development is unsustainable without a “big push” to promote investment, output and commodity exports. If small economies are conceptualised in these terms, then they simply do not possess large enough markets to gain the benefits of scale economies, which if they pursue diversification may only result in specialisation in one or two industries, with consequent high exposure to instability and lack of inter-sectoral spillover. The size and persistence of financial flows, remittances or otherwise, and the ability of islanders to utilise these resources to some extent to sustain levels of expenditure and standards of living that run ahead of local productive activity, as measured by GDP, suggested by the MIRAB model, illustrates that there are possibly significant limitations of conventional neoclassical analyses which focus on the stimulation of the tradable goods sector, export promotion and private investment targeted to these ends. Although it is conceded Melanesian economies possess traditional export led sectors, to ignore other economic factor flows, is to downplay one of the significant “economic locomotives” of Polynesia and Micronesia.<sup>34</sup>

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<sup>33</sup> Hughes, *Aid Has Failed the Pacific*, op cit., p. 27.

<sup>34</sup> Bertram, *'Economy'*, pp. 344-45.

### 3. Quasi-rents: Are Trade Preferences Beneficial?

Pacific preferential trade schemes, which may be classified as *de jure* rents, may be considered another distorting engine of development, but without them export diversification would not have been possible.<sup>35</sup> Lomé influenced where national budget were spent on development, as well as which products were produced. Fiji was the major regional beneficiary under both Lomé and SPARTECA. Since 1975, the Sugar Protocol granted Fiji a quota of 165,000 – 205,000 tonnes of sugar into the EU market, equating to about 30-40 per cent of Fiji's crop, and 80 per cent of its EU export earnings. All produce is sold at the EU intervention price, about two to three times that of the world price. Fiji and Papua New Guinea have also benefited from derogations for textiles and canned tuna. Palm oil, coffee and copra are other agricultural products able to gain preferential entry. While it is true that erosion or reordering of preferences mean that PACP exports will be at a competitive disadvantage, and there will be a decline in GDP as a result, on closer inspection though, it is not completely convincing that FICs would be better off under a preferential trade agreement.<sup>36</sup>

The SPARTECA Treaty, with the exemption of sugar, has given the Pacific duty free access to Australia and New Zealand's markets since 1981. One of SPARTECA's key objectives were to promote greater penetration of Australian and New Zealand markets, as well as to expand and diversify their exports to accelerate development. Analysis by Grynberg (1996) of whether SPARTECA has met such objectives has revealed that although the Treaty has been responsible for some trade expansion, most notably with the rise of the Fijian garment trade, generally the sustainable expansion was due more to regulatory change within Fiji, New Zealand and Australia. If it were the result of the Treaty, then the impact would have been more uniform across PICs party to SPARTECA, especially those New Zealand has close relations with. What occurred was that renewable exports from PICs to Australia and New Zealand declined. However, it is apparent that when Fiji and New Zealand undertook structural reform in 1987 it corresponded to between 50 to 100 per cent increases in exports to North America, New

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<sup>35</sup> Roman Grynberg, (2001), 'A Theory of Trade and Development of Small Vulnerable States', *The Journal of Pacific Studies*, Vol. 25, No. 1, pp. 166-67.

<sup>36</sup> Roman Grynberg, (1996), *The Pacific ACP States and the End of the Lomé Convention*, Working Papers on EU Development Policy, Friedrich Ebert Stiftung, Bonn, accessed at [http://www.euforic.org/fes/1gb\\_gry.htm](http://www.euforic.org/fes/1gb_gry.htm), 30 June 2003, pp. 9-10; Commission of the European Communities, (2002), *The Pacific and the European Union*, Office for Official Publications of the European Communities, Luxembourg, p. 23.

Zealand and Australia.<sup>37</sup> Therefore, it must be concluded that SPARTECA and macroeconomic reform were both necessary to produce a surge in apparel exports in Fiji. Overall, SPARTECA, despite its generous access provisions failed to register any real benefits beyond those to the Fiji garment industry.

In summary, the strength of trade preferences in the Pacific are that they have provided stable, predictable and long-term sources of quasi-rents that have successfully encouraged investment in manufacturing and agriculture. Even so, it is generally the larger MDCs that have taken advantage of preferences. However, they cannot act as a long term substitute for competitiveness. Nonetheless, Pacific leaders have tended to act as though preferences will be a permanent part of the landscape, and have not acted to shift to less preference-dependent growth, despite the reduction in the advantage of preferences as global liberalisation has proceeded. Therefore, the appropriate way to approach proposals for a Pacific FTA is to realise how the adoption of more liberal trade regimes might be able to capture the economic benefits that can be expected to flow from the reduction of trade barriers,<sup>38</sup> and not to mourn the passing of preferences, as they have had a distorting effect on PIC economies.

In fairness though, the conditions and trends of PIC economies illustrates that the opportunities created by a liberalised global market are most able to be taken advantage of by societies that are adept at moving resources and changing economic activities with changing market opportunities.<sup>39</sup> A pool of freely traded labour, specialised land, labour and capital; the physical infrastructure to permit efficient movement of factors; efficient information and communications technology to disseminate market information rapidly at low cost; and a stable political and social infrastructure are all essential prerequisites that PICs must possess to have parity with Northern partners, if integration into the global economy through a South-South-North agreement is to be effective. In substitution for this, the role of extra-regional linkages as described by the MIRAB model cannot be discounted either (cf. Appendix Six). What form might a Pacific EPA take to limit the impact of liberalisation, where welfare returns are likely to be limited, and to enhance the

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<sup>37</sup> Roman Grynberg, Australian National University. Research School of Pacific and Asian Studies. and Australian National University. National Centre for Development Studies., (1996), The Uruguay Round and the Pacific island countries, National Centre for Development Studies, [Canberra, A.C.T.], pp. 61-63.

<sup>38</sup> Scollay, Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands' Proposed Free Trade Agreement, op cit., p. 14.

possibilities for development, yet meet the wider requirements of WTO compatibility? This depends on how the sub-regional integration process deals with these various constraints.

#### **4. Issues in Economic Debates over RTAs – Application to the Pacific**

Although trade integration was discussed at the outset of the creation of the Forum in 1971, it was not until 1998 that the FEMM launched research into options for free trade among the FICs, based on the mandate granted to it from the original FEMM meeting in Cairns in 1997. The essential question is whether the limited scope for economic integration can create welfare benefits for the FICs. Returning to Vinerian Customs Union theory, the most crucial issue is whether a FIC FTA will be more trade creating than trade diverting. In part, the relative size of trade creation and trade diversion relates to the design of the agreement and the economic characteristics of the members and the structure of their international trade. Laird (1999) reports that the prospects for maximising trade creation are better the larger the share of members in their partners' pre-existing trade; the more diversified the members' economies are; the closer domestic prices in the group match world prices and the greater the initial non-uniformity of partners' tariff structures. As noted earlier elasticity, or the responsiveness to price changes of import demand and export supply in the partner countries, and the substitutability between partner countries, taking into account consumer preferences, product characteristics and factor costs will also influence the size of trade creation or diversion.<sup>40</sup> Scollay (2001) concludes that with exception of the last factor, none of these characteristics are found in FICs. The small scope of the regional market makes trade creation difficult, and high tariffs found among the FICs might mean increased trade causes uncompetitive trade diversion. Trade diversion effects can be eliminated if the external barriers are reduced at the same time as internal barriers are. In this case, it makes sense to liberalise. However, the importance of tariff revenue effectively acts as a break on this proposal.

This means that FICs must also conduct intensive structural reform to their tax systems, to find alternative forms of revenue. A value-added tax, a tax levied on the difference

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<sup>39</sup> Grynberg, 'A Theory of Trade and Development of Small Vulnerable States', op cit., p. 157.

<sup>40</sup> Scollay, Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, op cit., p. 21.

between a commodity's price before taxes and its cost of production, or a consumption tax are the most likely options. These present an inverse relation between the welfare gains that can be expected and the size of the cost. VATs would in the long term remove the distortions caused by tariffs, but are not as convincing in FICs where exports are negligible. A negative list approach, where trade is liberalised in all products except for a short list of exclusions would also limit administrative and negotiation costs.<sup>41</sup>

Hence, while there may be minor economic benefits associated with increased competition, the value of an FTA is reducible to the size of trade creation against dependence on tariff revenue. In this sense, the economic effects of an FTA are likely to be very small.<sup>42</sup> However, the possibilities for harmonisation and trade facilitation involved with a FIC FTA augur potentially well, since the FTA can act as a "stepping stone" to prepare for wider liberalisation, with Australia and New Zealand. This is more logical, given the larger share of trade with these two countries, and their inclusion would limit the degree of trade diversion. The stepping stone approach in this way lessens the impact of unilateral reduction of tariff barriers which would otherwise have to occur. The rationale of FIC trade agreements is therefore highly consistent with the European Commission's South-South-North model of integration, but as such immediately raises the spectre of legal challenges and negotiation complications.

## **5. Application to Pacific Trade Agreements**

### ***(i) PICTA and PACER***

The two Pacific trade agreements, endorsed by the Forum leaders at the Nauru in 2001, and ratified in late 2002 and early 2003 (Appendix Eight), provide a structure designed to address the issues and concerns identified. The Pacific Agreement on Closer Economic Relations (PACER) is an accord, rather than an FTA, which is intended to establish a framework for future integration between Australia, New Zealand and the FICs. As such, PACER does not need to be notified to the WTO under Article XXIV, so that it can provide for the gradual and evolutionary development of trade and economic cooperation. PACER allows the FICs to integrate first, but also so that New Zealand and Australia will also be able to maintain access to FIC markets. It includes a provision to commence

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<sup>41</sup> Robert Scollay, (2001), New Developments in Trade and Economic Cooperation Among Pacific Islands Forum Members, 18 July, The Foundation for Development Cooperation, Brisbane, accessed at <http://www.fdc.org.au/files/scollayrevsd.pdf>, 23 February 2004, p. 3.

negotiations for a Forum-wide FTA no later than eight years after the FIC-only FTA enters into force, as well as the possibility of a single market. PACER ensures that Australia and New Zealand must continue to provide individual FICs with existing levels of market access under SPARTECA, until such time new arrangements are concluded providing equal or better access.<sup>43</sup> The key benefits to FICs will be in trade facilitation, financial and technical assistance.

The Pacific Island Countries Trade Agreement (PICTA) follows the original draft 1999 negotiating text of the FEMM very closely. It stipulates that tariffs will be progressively and automatically reduced on trade in goods, not services, according to graduated schedules, and a common external tariff will apply. MDC FICs must have zero tariffs by 2010, while the SIS, the American Compact states and LDCs must comply by 2012. Non-tariff barriers and specific tariffs may be converted to ad valorem tariffs and reduced according to the relevant schedule to limit administration costs. Likewise, PICTA endorses a negative list, which lessens the pressure of liberalisation on industries which might suffer with the removal of protection. The products that are covered by the negative list, which include basic everyday necessities such as household items, sugar products and some textiles, must have tariffs phased out by 2016.<sup>44</sup> PICTA does not inhibit schemes like the MSG, but its negotiation signals less possibility for trade blocs to form on ethnocentric lines, to foster regional political solidarity. PICTA also allows for infant industries to be protected, but only for certain products under strict timeframes.

Therefore, the PICTA serves as a confidence-building step in the management of FTAs. However, since PICTA covers a wide range of products, the impact of liberalisation will likely result in some trade diversion.<sup>45</sup> To FIC leaders immediate losses were deemed tolerable to keep the costs of implementation and administration of the agreement under control. Trade diversion and adjustment costs caused by taxation reform will also negatively impact Pacific communities, where the consumer has to bear the burden. From

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<sup>42</sup> *ibid.*, p. 2.

<sup>43</sup> Pacific Islands Forum Secretariat, (2001), "PACER & PICTA Frequently Asked Questions", Pacific Islands Forum Secretariat, Suva, available at <http://www.forumsec.org.fj/docs/docs.htm> accessed 4 August 2003.

<sup>44</sup> Scollay, New Developments in Trade and Economic Cooperation Among Pacific Islands Forum Members, pp. 8-9; Pacific Island Forum Secretariat, (2001), Pacific Island Countries Trade Agreement, 18 August 2001, Pacific Islands Forum, Nauru, Annex III, pp. 38f.

<sup>45</sup> Sam Laird, (1999), 'Regional Trade Agreements: Dangerous Liaisons?' World Economy, Vol. 22, pp. 1179-1200; Pacific Islands Forum Secretariat, "PACER & PICTA Frequently Asked Questions", *op cit.*

the lessons of theory and previous experience of regional cooperation, the majority of the benefits are likely to accrue to Fiji, as the lead regional economy.<sup>46</sup>

*(ii) 'Intricacy': Challenges from PICTA and PACER to the Pacific post-Cotonou Agreement Process*

The sequence of liberalisation is the single most important complexity of the development component of the FIC FTA initiatives (Appendix Five). One item of concern is that to satisfy requirements for “substantially all trade,” bilateral flows with Australia and New Zealand must be counted because intra-FIC trade is so minimal. A more significant concern are the implications of PACER for EU-PACP negotiations. Article 6, paragraph 3 of PACER specifically states that should the FICs commence formal negotiations with one or more developed non-Forum country, they are likewise obligated “to undertake consultations as soon as practicable” to negotiate free trade agreements with Australia and New Zealand (Figure 6.5). Likewise, the Compact states (the FSM, RMI and Palau) would be obliged to offer equivalent market access to the US as to the EU. The key implication for FICs is that once EPA negotiations begin, a broader regional liberalisation process will be triggered, perhaps far too prematurely for the “stepping stone” strategy to have had time to take effect, especially since the overlapping RTAs have different timetables of liberalisation (Appendix Five). This means that a Pacific EPA should not prematurely trigger a sooner than preferred “second step,” on the path to integration, too great for the benefits of MFN liberalisation to accrue, and requiring an unaffordable redistributive programme. The key consideration for the PACP/FICs in negotiating the form of a Pacific EPA then is that they retain control of the pace of liberalisation,<sup>47</sup> so that liberalisation is appropriate to the economic context. Allowance must be made for a significant degree of flexibility and the topography of the Pacific regional economic landscape.

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<sup>46</sup> Moran, *Pacific Islands Free Trade Agreements: Briefing Paper for the Pacific Islands Forum Leaders Meeting*, op cit., pp. 5-6.

<sup>47</sup> Scollay, *Regional Trade Agreements and Developing Countries: The Case of the Pacific Islands' Proposed Free Trade Agreement*, op cit., pp. 26-28.



**Figure 6.5: Pacific Agreement on Closer Economic Relations (PACER) Article 6  
Provisions Relevant to EU-PACP EPA Negotiations**

*Consultations between Forum Island Countries and Australia and New Zealand, relating to the negotiation of free trade agreements*

*Paragraph 3:*

“... if any Forum Island Country which is party to this Agreement:

commences formal negotiations for free trade agreements which would include one or more developed non-Forum country, then that Forum Island Country shall offer to undertake consultations as soon as practicable with Australia and New Zealand, whether individually or jointly with a view to the commencement of negotiation of free trade arrangements; or

concludes free trade arrangements which would not include any developed non-Forum country, then that Forum Island Country shall offer to undertake consultations with Australia and New Zealand as soon as practicable after such arrangements are concluded...”

*Paragraph 4:*

“...if all the parties to the PICTA jointly commence negotiations for free trade arrangements which would include one or more non-forum country, they shall offer to undertake consultations, as soon as practicable, with Australia and New Zealand, whether individually or jointly, with a view to the commencement of negotiation of free trade arrangements.

Source: Pacific Island Forum Secretariat, 2001, pp. 5-6.

## **V. AN EPA OR AN “ALTERNATIVE TRADE AGREEMENT” FOR THE REGION?**

### **1. The EU-PACP Trading Relationship**

One caveat is necessary before sketching what the trajectory of the EU-PACP partnership will be for the future in light of the nature of Pacific economic integration. With six new members joining the PACP in 2000, only eight Pacific states have a relatively long trade relationship with the EU. Of these, eight, only three, Papua New Guinea, Fiji and Tonga have a trade relationship extending beyond the twentieth century. PACP exports dominated bilateral trade with Europe, due the stimulus of STABEX and Lomé, while PACP imports remained diverse, due to the greater distance between Europe and the

Pacific.<sup>48</sup> However, the small volume of imports from the EU and the volatile annual shifts in the composition of imports to Tonga, for example, are indicative of an immature trading relationship between Europe and the FICs, which is not a solid foundation upon which to build a North-South reciprocal free trade agreement.<sup>49</sup> FTAs are usually the result of a mature trading relationship between countries.<sup>50</sup> The positive side of the immature EU-PACP trade relationship is that direct trade effects of an EPA will be low and adjustment costs minimal, given low penetration by EU exporters. It is debateable then whether the EU and the PACP will be able to liberalise enough trade to satisfy the substantially all trade conditions, and, in the absence of a consistent range of EU exports, to establish a stable schedule of concessions that would meet the RTA's legal obligations to the WTO.

There is also the issue of the French Pacific Territories (New Caledonia, French Polynesia and Wallis and Futuna). Article 28 of the Cotonou Agreement reaffirmed that Cotonou trade agreements may be extended to OCTs.<sup>51</sup> FICs would have to be granted access to OCT markets. Moreover, for consistency, the Forum to allow these non-Forum territories to assume a role in Forum politics beyond observer status, currently only granted to New Caledonia, to participate in regional liberalisation efforts before the North-South element of the partnership commences. Initial steps have been made by the Forum to involve the French Territories more closely with the Forum architecture, with a view to their future democratisation and independence.<sup>52</sup> However, any rationalisation of Pacific regional free trade initiatives may also have implications to allow a greater degree of autonomy or even quicken the pace of the independence for the Pacific OCTs.

## **2. Optimal Configuration for a Pacific EPA: A Multi-Agreement Approach**

The economic profile of the Pacific and the technical feasibility of a South-South-North model of integration therefore raise the final question of configuration: how far can an

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<sup>48</sup> Roman Grynberg, (2000), Asymmetric Reciprocity in the Post-Lomé Framework, Implications for Trade Relations in the Pacific, Pacific Islands Forum Secretariat, Suva, accessed at: [http://www.acp-eu-trade.org/biblio\\_pacific.php](http://www.acp-eu-trade.org/biblio_pacific.php), 14 July 2003, pp. 6-7.

<sup>49</sup> Grynberg and Onguglo, A Development Agenda for the Economic Partnership Agreement between the EU and the Pacific ACP (PACP) A Concept Paper, op cit., p. 3.

<sup>50</sup> These observations are based on the tables which illustrate the EU-Pacific trade profile that may be found in Appendix Nine.

<sup>51</sup> Scollay, Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, op cit., pp. 18-19.

<sup>52</sup> Pacific Islands Forum Secretariat, (2003), Forum Communiqué, Thirty-Fourth Pacific Islands Forum, Auckland, New Zealand, PIF(03)11, Pacific Islands Forum Secretariat, Auckland, p. 11.

EPA incorporate what the EU has so far defined as the Pacific, or is the sub-region or a sub-group of PACP states perhaps a better vehicle for integration? As discussed in earlier chapters this is not an unusual phenomenon in the Pacific and may better serve considerations of reciprocity and flexibility. In some ways this parallels possibilities which may have been explored at the ACP level. Acting collectively as the PACP gives the group strength in numbers when dealing with the EU or to advance an exclusive focus for issues relevant to them. Another option could have been to form groupings around common issues, such as “Sugar Producers’ EPA” or a “Small Island States’ EPA.” But whether there would be sufficient interests to sustain the partnership as well as the legal status of the Sugar Protocol lessen the attractiveness of this architecture.<sup>53</sup> More attractive are possibilities for a “Two Tier” approach, where matters of common application, such as modalities for EU-ACP cooperation, safeguards and rules of origin matters, are applied to the whole, and arrangements for trade left to region-to-region negotiations.<sup>54</sup> These represent some permutations which may be applied to the Pacific EPA.

For the PACP/FICs, the prime trade concern is the opportunity cost of not joining the EPA. The EPA ensures continued market access to the EU. The point of divergence among FICs is whether access to EU markets is worth more than the structural costs and the impact of increased competition from Australian, New Zealand and US goods in the Pacific market.<sup>55</sup> For Fiji and PNG, the costs are greater; for the LDCs market access is a non-issue due to the EBA. Hence, as divergent economic profiles alter the cost-benefit calculus for PACP states it might make sense to limit the impact of liberalisation by concluding an EPA with a sub-regional group such as the MSG which may form a customs union sooner, which would more easily facilitate North-South reciprocal tariff

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<sup>53</sup> A crucial component a Pacific EPA is the place of the Sugar Protocol. Although Fiji has begun to reform its sugar industry in response, a strategic issue is whether or not sugar should be included in the EPA. Commodity Protocols are still legally distinct from Cotonou trade provisions. Hence, if sugar is not included, then this might impinge on satisfaction of SAT, by excluding a sensitive industry. However, if sugar is included, then it would lead to unrestricted market access for competitive Pacific sugar, balancing out falling prices. A greater legal challenge would be to include quotas in the EPA framework, if substantially all trade could still be met. Scollay, Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, op cit., pp. 41-45.

<sup>54</sup> *ibid.*, pp. 61-64.

<sup>55</sup> Cf. Grynberg, Asymmetric Reciprocity in the Post-Lomé Framework, Implications for Trade Relations in the Pacific, p. 10; Scollay, Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, op cit., p. 64; Vincent Roza and Stefan Szepesi, (2003), EPA Impact Studies Perspectives for the Pacific, *InBrief*, No. 2A, European Centre for Development Policy Management (ECDPM), Maastricht, accessed at <http://www.ecdpm.org>, 12 December 2003, p. 2.

reduction. Its members would also incorporate the mature Europe-Pacific trade partners in the region. The EU-PACP LDC partnership could more easily be dealt with through the EBA. However, such an approach while addressing flexibility and reciprocity concerns would create a policy patchwork in the Pacific, and complicate the web of regional agreements further. Since sub-regional economic integration has also been advanced by the PICTA/PACER process, splitting the group is less advantageous, and the more benefits would accrue to small vulnerable island states through the provisions for trade facilitation.

Hence, during the Commission review of alternative trade arrangements in 2004, the PACP states could argue a Pacific EPA should take on a slightly altered form, based on the Forum initiatives, but with greater programming for sectoral assistance, to sweeten the conclusion of an EPA. As presented by Grynberg and Onguglo (2002), the FTA could compromise one subsidiary agreement of a master umbrella agreement, which would establish broad principles and parameters for MFN market access for the EU to Pacific markets, and development. Other possible subsidiary agreements would exist in sectors in which PACP states enjoy comparative advantage, including a Fisheries Development Framework, linking technical assistance to rights to fish in Pacific waters; an Investment Promotion and Protection Scheme, to subsidise the risk of investment; and of course a trade in services element, a Regional Integration Agreement in Services, which would give the EU strong access to the Pacific tourism industry for example, in return for support to improve infrastructure and human capital. However, such an initiative would require funding outside of EDF 9 to be implemented.<sup>56</sup>

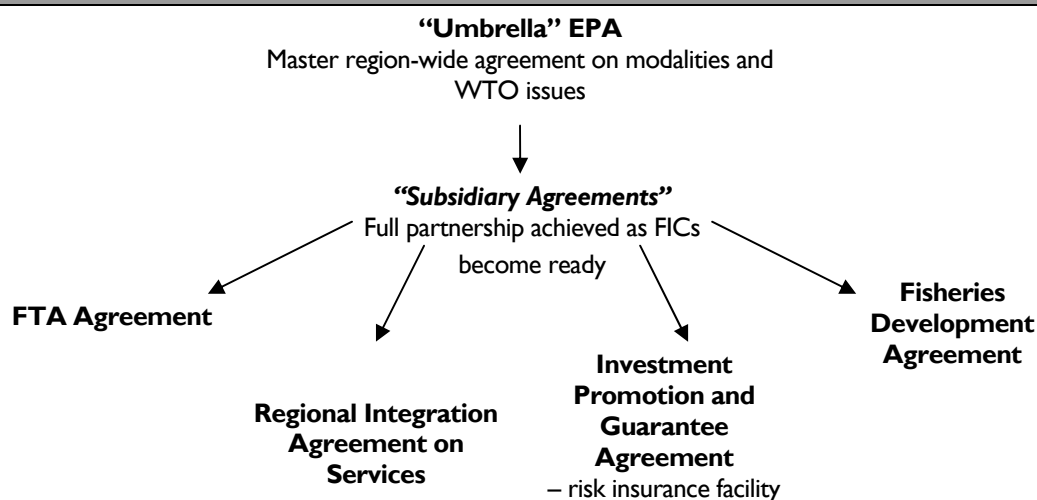
Nevertheless, the strength of an *à la carte* plan (Figure 6.6) is that it maintains the relative cohesion of the PACP group and a commitment to a WTO compliant RTA, through conclusion of the umbrella agreement, but the subsidiary agreements allow the Pacific states to enter individually into deeper integration when their economies are prepared. Utilisation of a subsidiary agreement approach to the Pacific EPA would also represent a way to solve the problem of sequencing, with respect to PACER and the US Compact. In this way, more lucrative opportunities for FICs in trade in services could be addressed, and the politically contentious and ambiguous issues relating to trade in goods could be

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<sup>56</sup> Scollay, Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, op cit., pp. 65-68.

left to the very end of EU-PACP negotiations. In this way PACER would not be triggered prematurely, but both the majority of WTO issues and the configuration of the EPA will be determined before that time, resulting in greater harmony between North-South and South-South integration.

**Figure 6.6: An *à la carte* or Multi-Agreement Approach to a Pacific EPA**



Source: After Grynberg and Onguglo, 2002.

## VI. CONCLUSIONS

The FIC FTA is not an isolated foray into regional preferential trade on the part of the FICs. As noted, the FICs already possess significant unrestricted access to Australian, New Zealand and European markets through SPARTECA, Lomé and Cotonou, and the EBA initiative for Pacific LDCs. Economic analysis indicates that an FTA can bring some positive benefits to the PACP states, but the problem of sequencing may impose greater burdens on their fragile economies. In this sense, a regional model of integration based on the Forum initiatives is most sensible for achieving potential economies of scale, rather than generating fragmentation by integrating specific sectors or adopting a multi-speed approach to EU-PACP negotiations with sub regional elements of the PACP group.

Nevertheless, various inconsistencies need to be resolved to address the arbitrary definition of who is included or excluded in the economic region, so that natural trading partners such as Australia and New Zealand, and the French OCTs in Melanesia can

contribute towards the Pacific FTA. The model of economic development proposed in the Cotonou Agreement therefore is not entirely inappropriate, but it is clear that the trading relationship is currently immature, and consequently the focus of a Pacific EPA should be broadened to include trade in services and build trade facilitation. It is hardly worth having a Pacific FTA if islanders do not possess the capacity to ship their goods.<sup>57</sup> In this way, aid and offshore remittances should be recognised as a welfare-maximising strategy to export labour and geostrategic services using emigration.<sup>58</sup> The role of aid is more contentious, but undoubtedly aid plus trade is necessary to sustain FIC economies. However, as free trade is only a matter of time, the PACP states need to be granted much longer timeframes and flexible options in order to be able to negotiate a region-to-region agreement to lessen the impact. Reform of Article XXIV to allow flexibility to be incorporated into the EPA framework is a logical strategy for both the EU and the PACP to pursue in this respect through the Doha reform agenda. However, in its possible absence, the EU will have to be proactive towards FICs and offer concessions to the PACP as suggested under the Multi-Agreement approach.

In conclusion, alternative economic integration arrangements are most likely necessary to avoid a serious sub-optimal policy outcome for the EPA programme in the Pacific, because of the competing demands of reciprocity, flexibility and the vulnerable state of the Pacific economic context, so that the political economy of costs and benefits in economic cooperation do not polarise existing Pacific regional integration processes. As a result, the array of alternative arrangements which are necessary to facilitate the construction of a Pacific FTA and negotiation of an EPA indicate that the Pacific is not a

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<sup>57</sup> Note the comments of the President of Kiribati at the Pacific Islands Forum Special Leaders' Retreat, Auckland, 5-6 April 2004, who argues that for small island states it is not trade barriers, but transport costs which are the biggest problem trade facilitation issue:

"We talk about trade in the region. We're talking about transport. Because for us it is not trade barriers that matter. It's the cost of transportation. The freight costs."

Australian Broadcasting Corporation, (2004), 'Pacific Leaders Meet in Auckland to Discuss Pacific Plan', ABC Go Asia Pacific, Australia, 6 April 2004, accessed at: <http://www.abc.net.au/asiapacific/news>, 6 April 2004

Grynberg also notes on this point the non-linear characteristics of isolation and diseconomies for PICs, citing the example of the exporting cut flowers from Fiji to Honolulu and Tokyo. The distance between Tokyo and Suva is two times the distance between Suva and Honolulu, yet the air freight cost in 1994 was four times as high to ship to Tokyo. This was because there was only one carrier on the route with sufficient space to accommodate the cargo, most of which was dedicated to chilled fish (Grynberg, 1996, 5). Therefore rates can only fall with competition, and this may require intervention and financial support, as is provided under PICTA's infant industry provisions (Article 14) as well as the plans included to facilitate better cargo transport under the Pacific Island Air Services Agreement (PIASA) Pacific Islands Forum Secretariat, (2003), Pacific Islands Air Services Agreement, Background Issues Paper, July 2003, Pacific Island Forum Secretariat, Suva, p. 2.

natural economic integration area for trade in goods. Yet there is still potential for integration if economic sectors beyond trade in goods are considered.

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<sup>58</sup> Poirine, B., (1998), 'Should We Hate or Love MIRAB?' Contemporary Pacific, Vol. 10, No. 1, pp. 95-97.

## Conclusions

### A Pacific Economic Partnership Agreement -

### “Off the Shelf, or Tailor Made?”

#### Is the Pacific a region?

*“The Pacific Islands have no basis for a relationship with the EU until the wheel of history moves again...and it has good reason to want what few resources they possess. Until such time we remain, yours sincerely, an afterthought.”*

(Grynberg, 1996, p. 28)

## I. INTRODUCTION

Pacific analyst and economist, Roman Grynberg wrote the words above at a time the Lomé reforms were questioning the logic of the EU-ACP partnership. In a similar fashion, the negotiation of a Pacific EPA has been demonstrated to raise doubts about the rationale of regional integration as a template for development. The Pacific ACP was an afterthought in the ACP architecture. The PACP states benefited from the Lomé Conventions, and were required to do little in return for the Community. Now, with the subdivision of the ACP into regional groups, as well as differentiation, and the need to adopt reciprocal trade with the EU, the ‘afterthought’ has been forced to adapt as best it can to the new parameters of the EU-ACP partnership. While the application of a regional template might be advantageous to the EU for reasons of efficiency, it has created an arbitrarily defined region. It has been shown that the Pacific in general possesses weak potential to engage in the level of integrative activity that is envisaged by the Cotonou Agreement. It can be said to constitute a region, but linkages tend to be stronger at the sub regional level, across and within the cultural sub regions of Micronesia and Polynesia, and Melanesia. Conceptualisations of the Pacific as a tightly woven region are modern day constructions, behind which the will to cooperate is still being fleshed out. Thus, it is unlikely that the EPA template can be taken “off the shelf,” to be



used as a vehicle of development. Instead, the EU will likely have to consider options to “tailor” an EPA to the Pacific ACP states’ requirements as a collective.

## II. RATIONALE OF REGIONAL RELATIONS WITH THE PACIFIC REVISITED

### 1. An Immature Partnership

The grounds for such an assertion are compelling. Firstly, are the weaknesses of the rationale for a South-South-North trade agreement between the EU and the Pacific. Although it is argued that stimulating regional trade integration constitutes a stepping stone to participation in reciprocal free trade with the EU, and other partners, the Pacific is an underdeveloped trade partner in this respect. Pacific regional trade is low, and most of the PACP states have an immature trade relationship with the EU. Those that do possess strong trade ties with Europe are dependent on a small range of subsidised or preferentially treated products. This is hardly a good foundation upon which to construct a liberalised trade regime. Although the FICs have committed to a schedule of liberalisation in trade in goods, under the PICTA, its potential for trade diversion is high, and welfare generating prospects slim, as the islands lack comparative advantage to reap the benefits of scale economies.

### 2. Associationism

If the grounds for constructing an FTA between the Pacific and the EU are scant, there must be a more compelling reason for why the two parties are intensifying their relationship. Returning to an earlier concept, the first reason lies in the logic of associationism. While the partnership is economically rational for the ACP states because of the development assistance and market access provided by it, especially for the PACP states, which are much more dependent on rent from aid flows for economic growth, there are other reasons for why it has persisted. As has been illustrated, the partnership has an intrinsic value for the EU and the ACP states.<sup>1</sup> The EU, for its part, fulfils a moral and legal obligation to improve the welfare of its developing world partners, while the ACP derives integrity, representation within the EU, and its existence from the partnership. As

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<sup>1</sup> Enzo R. Grilli, (1993), *The European Community and the Developing Countries*, Cambridge University Press, London; Majorie Lister, (1997), *The European Union and the South*, Routledge, London & New York.

such, the Pacific can specifically benefit from the role that the EU can fulfil in boosting the capacity for Pacific states to conduct regional integration. The partnership also gives the PACP states the added security of a negotiated agreement with a comprehensive development dimension. Furthermore, as noted, the EPA framework has been demonstrated to be a fairer vehicle for North-South trade relations, for all PACP and ACP states, than other alternatives, such as the EU's GSP or the EBA initiative.<sup>2</sup> Lastly, the Cotonou Agreement offers the possibility to more effectively tackle regulatory change in the WTO, to the advantage of developing countries, with the EU as a partner, for example in the reform of GATT Article XXIV to include SDT.<sup>3</sup> Although the trade dimension is questionable for a set of small vulnerable island states, these elements of the Cotonou Agreement are not worth sacrificing. Thus, the partnership is greater than the value of its features.

Thus, the arguments for a Pacific EPA might be considered nothing more than a “legal fig leaf,” to pacify opponents of EU-ACP trade in the WTO, if the *leitmotif* of partnership is not fully considered. It is also a reminder that one of the non-negotiable elements of the EPA process is to achieve WTO compatibility, so that the partnership may be preserved without ambiguity, in the form of an RTA. A Pacific EPA therefore will legitimise the broader development objectives of the partnership for the PACP. Nevertheless, the logic for an FTA between the EU and the Pacific is not convincing, given the existing levels of trade and the potential for future trade. In other words, a Pacific EPA may still be considered an absurdity outside of the Cotonou framework.<sup>4</sup> Hence, the EPA template is necessary to introduce reciprocity into the partnership. Of certainty, then, are that such global imperatives clash with the integrative potential of the Pacific region.

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<sup>2</sup> Sanoussi Bilal, (2002), Implications of the Doha Development Agenda on the EPA Negotiations, COMESA Secretariat, Lusaka, Zambia, accessed at <http://www.eu-acp-trade.org>, 18 March 2004; Bonapas Onguglo, and Taisuke Ito, (2003), How to Make EPAs WTO Compatible? Reforming the Rules on Regional Trade Agreements, (ECDPM Discussion Paper 40), 17 September, European Centre for Development Policy Management (ECDPM), Maastricht, accessed at: <http://www.ecdpm.org/>, 29 October 2003.

<sup>3</sup> Pascal Lamy, (2002), 'Stepping Stones or Stumbling Blocks? The EU's Approach Towards the Problem of Multilateralism vs Regionalism in Trade Policy', The World Economy, Vol. 25, No. 10, pp. 1399-1413, pp. 1406-08.

<sup>4</sup> Roman Grynberg, (2000), Asymmetric Reciprocity in the Post-Lomé Framework, Implications for Trade Relations in the Pacific, Pacific Islands Forum Secretariat, Suva, accessed at: [http://www.acp-eu-trade.org/biblio\\_pacific.php](http://www.acp-eu-trade.org/biblio_pacific.php), 14 July 2003, p. 7 & p. 11.

### III. EVALUATION: THE EXTENT OF REGIONALISM IN THE PACIFIC

#### 1. Political-Institutional Integration

As has been shown by the political economy of regional cooperation in the developing world, regional integration is an activity that demands a high degree of collective political will from developing countries, which is harder to sustain as the risks are greater. In the Pacific, political cooperation has been driven by exogenous influences, whether in response to decolonisation, or the new development orthodoxy, which seeks to integrate the Pacific into the global trading system. As young nations, with limited resources, the PICs have usually seen value in regionalism when it can serve clear-cut national interests, which has meant that integration has been limited to specific functional areas, for example, in fisheries, the environment and shipping. As current Forum Secretary-General, Greg Urwin, has reflected, regional organisations were created to assist in the delivery of technical state-sponsored development programmes, which added value national efforts, but reflected the state-centric nature of the regional approach to development.<sup>5</sup>

In other cases, the distribution of costs and benefits has benefited large states, like Fiji, to the detriment of the small vulnerable islands states. Consequently, sub-regionalism has been strong, as PICs have formed groups, such as the MSG and SIS, where they share interests and status. In general, regionalism has so far been best characterised as “collective diplomacy,” because the question of intensive integration has been avoided in order to reach accord on issues of mutual benefit.<sup>6</sup> Assistance from regional powers has also buoyed Pacific regionalism. Nevertheless, the adoption of the recommendations of the 2003-2004 Forum Review shows that Pacific leaders are beginning to realise that the root problems of development and the challenges of globalisation may be better addressed at the regional level, through pooling resources. However, it is still very much an idea.<sup>7</sup>

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<sup>5</sup> Greg Urwin, and Pacific Islands Forum Secretariat, (2004), Economic Development of Pacific Island Economies and Regional Cooperation, Presentation by Mr. Greg Urwin, Secretary General Forum Secretariat, at the USP Seminar, Tuesday 18 May 2004, Pacific Islands Forum Secretariat, Suva, accessed at: [http://www.forumsec.org.fj/news/2004/May/May\\_05.htm](http://www.forumsec.org.fj/news/2004/May/May_05.htm), 20 May 2004.

<sup>6</sup> Greg Fry, (1994), *International Cooperation in the South Pacific: From Regional Integration to Collective Diplomacy*, in Andrew W. Axline (ed.), The Political Economy of Regional Cooperation, Pinter, London.

<sup>7</sup> Pacific Islands Forum Eminent Persons Group, (2004), Pacific Cooperation, Voices of the Pacific, The Eminent Persons' Group Review of the Pacific Islands Forum, April 2004, New Zealand Ministry of Foreign Affairs & Trade, Wellington, accessed at: <http://www.mfat.govt.nz/foreign/regions/pacific/pif03/pdf/PIF%20Report.pdf>, 8 April 2004, p. 10; Australian Broadcasting Corporation, (2004), 'Pacific Leaders Meet in Auckland to Discuss Pacific Plan',

Consequently, the political-institutional capacity for the Pacific to act as a region shows potential to handle more intensive integration, but for now lacks the will to go much beyond the limited form of functional integration employed.

## **2. Economic Integration**

Efforts such as the negotiation and ratification of PICTA strengthen the case for greater regional cooperation, though. Again, the PICTA is the first step in a broader plan to eventually establish reciprocal trade with New Zealand, Australia, and the EU. As most FICs are LDCs or vulnerable island states, they will still require SDT, and some level of trade preferences over an extensive time period, while they adjust to free trade, including structural adjustment, as alternative forms of income are found to address loss of customs revenue, and the socio-economic impact of liberalisation. A diverse range of high tariffs complicate the prospects for adoption of a common external tariff. Again, it is difficult to argue convincingly that because the FICs have agreed to construct an FTA that it is an optimum expression of an RTA. Significantly, the slower pace of liberalisation may also throw the EPA negotiating timetable awry. What is more, the PACP and PICTA exclude New Caledonia and French Polynesia. But FICs must now also consider an outlier, like East Timor; should it be part of the Pacific EPA as a PACP state, or negotiate a bilateral deal with the EU? The PACER includes Australia and New Zealand, as the key trade partners to the region, but of course the EPA negotiations exclude both these regional participants. Therefore the most serious problem associated with reciprocal free trade for the PACP/FICs is with the sequencing of agreements with multiple partners, caused by overlapping membership of RTAs.

## **3. Common Identity**

If economic integration is problematic on a number of levels, the dynamics of Pacific identity are far more complicated than the European Commission has thus far acknowledged. Island societies have developed along different trajectories caused by autonomous development, and because of the different resources available to them. The way the Pacific was 'peopled' by successive migrations evidenced that islanders do have a sense and ability to conduct cross regional exchange, but it more importantly influenced the rise of distinctive ethnic-cultural sub regions. These threads of pre-historical identity

were taken and formalised in the minds of islanders by the early European explorers, who developed the sub-regional culture areas of Micronesia, Melanesia and Polynesia. In general, the values and leadership structures are quite different, ranging from shared political power in Melanesia, to chiefly societies in Polynesia. Therefore, even though it is tempting to label all Pacific islanders as a regional people, it is in fact difficult to argue that islanders have a natural common identity, as division was ironically enforced by Western naming and colonisation of the Pacific. The Pacific Way, coined by Ratu Mara, representing an island consensual approach to politics, is the most cogent attempt at a common identity, but, again, it is a political construction, as illustrated by the Forum Review's suggestion that the Pacific Way incorporate principles of good government. Besides the Pacific Way, perhaps only the vague shared interest in the ocean, is the most appropriate lowest common denominator of Pacific identity.

#### **4. Capacity**

If islanders did earlier possess the ability to conduct cross-regional exchange, the capacity to remain in touch is severely limited in the contemporary Pacific. However, the most effective means to stay connected with each other and the outside world are through ICTs and transportation, but they are also the most costly. Regional cooperation therefore offers the best strategy to share the infrastructural costs, coordinate the efficient use of resources and to conduct negotiations in order to provide better transportation; communications and enhanced trade opportunities with the rest of the world. The effective measurement of enhancement of capacity is best achieved by the steps taken to achieve these goals in such sectoral areas in the Pacific.

#### **IV. PROSPECTS FOR A PACIFIC EPA**

Hence, the Pacific may be considered a very disparate region to integrate. With all of the above limitations and the technical obstacles involved in implementing the PCP in the Pacific, it seems in many ways the application of an EPA does not make sense. As described, the EU definition of the Pacific assumes a high degree of integrative potential, based on the Forum architecture and a strong will to cooperate. However, as the terms of the debate about integration in the Pacific are not about post-national destinations, but about development, the PACP states for a variety of reason are less able to adopt an EU-

inspired model of regional cooperation that enshrines economic integration a keystone of the process.

This argument is strengthened when it is likely that an alternative framework for EU-PACP relations will need to be adopted to take account of the limited extent of integration, as provided for under Article 36.7 of Cotonou, to be able conclude a Pacific regional trade agreement. The elements of this are highlighted below.<sup>8</sup>

- In general, a **two to three tiered approach to negotiations** is a strong option. It will allow negotiations to continue on form and scope, but by leaving negotiation of the trade elements of the partnership until last will avoid activating Article 6 of PACER unnecessarily soon.
- In relation to managing the scope and pace of liberalisation for island economies with limited elasticity, **a reassessment of the target of reciprocity**, below the 90 per cent standard is necessary given the importance of preferential trade to PACP states. Although this might mean a soft-FTA is created, where a significant proportion of trade is not liberalised, it may be a compromise the EU will have to make in order to continue the partnership.
- The **agenda of Pacific EPA negotiations should be broadened** to include a development agenda for economic activities where PICs have comparative advantage, as noted, in fisheries, investment and tourism or trade in services. Extensive regional trade facilitation programmes, investment assistance programmes and sanitary and phytosanitary compliance programmes, already begun, will bolster integration efforts in these areas.

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<sup>8</sup> Cf. European Centre for Development Policy Management, (2001), Cotonou Info Kit, European Centre for Development Policy Management (ECDPM), Maastricht, accessed at: <http://www.ecdpm.org>, 24 February 2003, No. 15; Robert Scollay, (2002), Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, A Report for ACP Secretariat and the Pacific ACP States, 28 2002, ACP-EU Trade Relations, available at <http://www.acp-eu-trade.org/documents/Scollay%202002%20-%20Pacific%20EPA%20Impact%20study.pdf>, accessed August 2003; Vincent Roza and Stefan Szepesi, (2003), EPA Impact Studies Perspectives for the Pacific, InBrief, No. 2A, European Centre for Development Policy Management (ECDPM), Maastricht, accessed at <http://www.ecdpm.org>, 12 December 2003.

- **Areas of integration beyond trade in goods** may therefore represent the optimum level for initial region-to-region cooperation. Integration could begin here, and then move to trade in goods.

Hence, the slow, phased pace of political and economic integration in the Pacific suggests a clear “piecewise approach” to regional cooperation, to integrate in sectors as they and the PACP states become ready for reciprocal liberalisation with the EU.

## V. PROSPECTS FOR AN EU TEMPLATE OF REGIONALISM IN THE PACIFIC

In conclusion, the view from Brussels is very different. Perhaps in growing recognition of the nature of Pacific regionalism, Development Director-General Richelle’s statement at the 2003 post-Forum dialogue illustrated that the EU is willing to adopt a “consultative” approach to EU-PACP trade negotiations, and promises not to enter into them until the PACP is ready.<sup>9</sup> Indeed it may be further proof that the PACP is an odd component in the region-to-region architecture constructed by the Cotonou Agreement. Certainly, the EPA template creates a number of new demands for the PACP states, in terms of dealing with a more complicated agenda, reciprocal trade, implications of the EU relationship on their relations with Australia and New Zealand, as well as the imperative for regional integration.<sup>10</sup> It is clear then the negotiation of a Pacific EPA will create yet another artificial, externally defined ‘Pacific region,’ in reflection of the neoliberal political imperatives generated in Brussels, Geneva and Washington, since the integration process has yet to be legitimated at the elite or the grassroots levels of Pacific societies. EU assumptions about the degree of commonality in the Pacific ignore the high levels of informality and diverse interests, which characterise regionalism in the Pacific. The case also demonstrates that regional solutions to the problems of underdevelopment are inherently political in character, in the developing world, which justifies the use of a political economy framework to capture the potential for a region such as the Pacific to work towards regional integration. Hence, EPAs are not just about trade and WTO

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<sup>9</sup> Koos Richelle, (2003), Statement by Mr Koos Richelle Director-General for Development, European Commission, Fifteenth Post-Forum Dialogue Partners Meeting, Commission of European Communities, Auckland, New Zealand, p. 7.

<sup>10</sup> Scollay, Draft Impact Assessment of Possible Economic Partnership Agreements (EPAs) with the European Union, op cit., pp. 81-82.

compatibility, they carry on the legacy of associationism. Consequently, even though this mixed agenda creates a capabilities-expectation gap between development policy objectives and the implementation of the PCP in the Pacific, the partnership between the EU and the Pacific will endure. More generally, the EPA process highlights that what constitutes the Pacific region is defined by those who have an interest in it.

Therefore, an EPA “off the shelf” is not the optimal vehicle of development for the PACP, as the model does not match the integrative potential of the region across a number of dimensions, if deep integration is pursued all at once. Presently there is an indeterminate end to the situation, as an alternative trade agreement is likely to be adopted between the Pacific and the EU. However, it does not appear sub regional or bilateral trade agreements will be pursued, because of the salience of the development partnership to both sides. An accommodation will be reached rather than allow the PACP group to fragment, or the partnership to dissolve. If a compromise is found, the trade arrangements may be harder to defend in the WTO, depending on the outcome of the Doha round and whether SDT can be incorporated into Article XXIV. In conclusion, there is evidence of an increased commitment to regional integration in the Pacific, of which PICTA and the “Pacific Plan” are positive examples. However, the potential for intensive regional integration is less well developed in the Pacific, as the logic of integration is not union, as in Europe, but interdependence.



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## Frequently Consulted World Wide Websites

*All of the websites below were current at the time of submission of this thesis.*

Australian Broadcasting Corporation, Go Asia Pacific,  
*<http://www.abc.net.au/asiapacific/pacific.htm>*

ACP-EU Trade Relations, *<http://www.acp-eu-trade.org/>*

ACP General Secretariat, *<http://www.acpsec.org/>*

Capacity.org (Capacity Building metasite), *[http://www.capacity.org/index\\_en.html](http://www.capacity.org/index_en.html)*

Commission of the European Communities, 'Europa': Directorate General of  
Development, *<http://europa.eu.int/comm/development>*

EPA Watch, *<http://www.epawatch.net/>*

Euforic, *<http://www.euforic.org/>*

European Centre for Development Policy Management, Maastricht,  
*<http://www.ecdpm.org/>*

Eurostat, Commission of the European Communities, 'Europa',  
*[http://europa.eu.int/comm/trade/bilateral/acp/index\\_en.htm](http://europa.eu.int/comm/trade/bilateral/acp/index_en.htm)*

Eurostep, (European Development Non-Governmental Organisation Network),  
*<http://www.eurostep.org/>*

New Zealand Ministry of Foreign Affairs and Trade: Pacific Division,  
*<http://www.mfat.govt.nz/foreign/regions/pacific/forumindex.html>*

Pacific Islands Forum Secretariat, *<http://www.forumsec.org.fj/>*

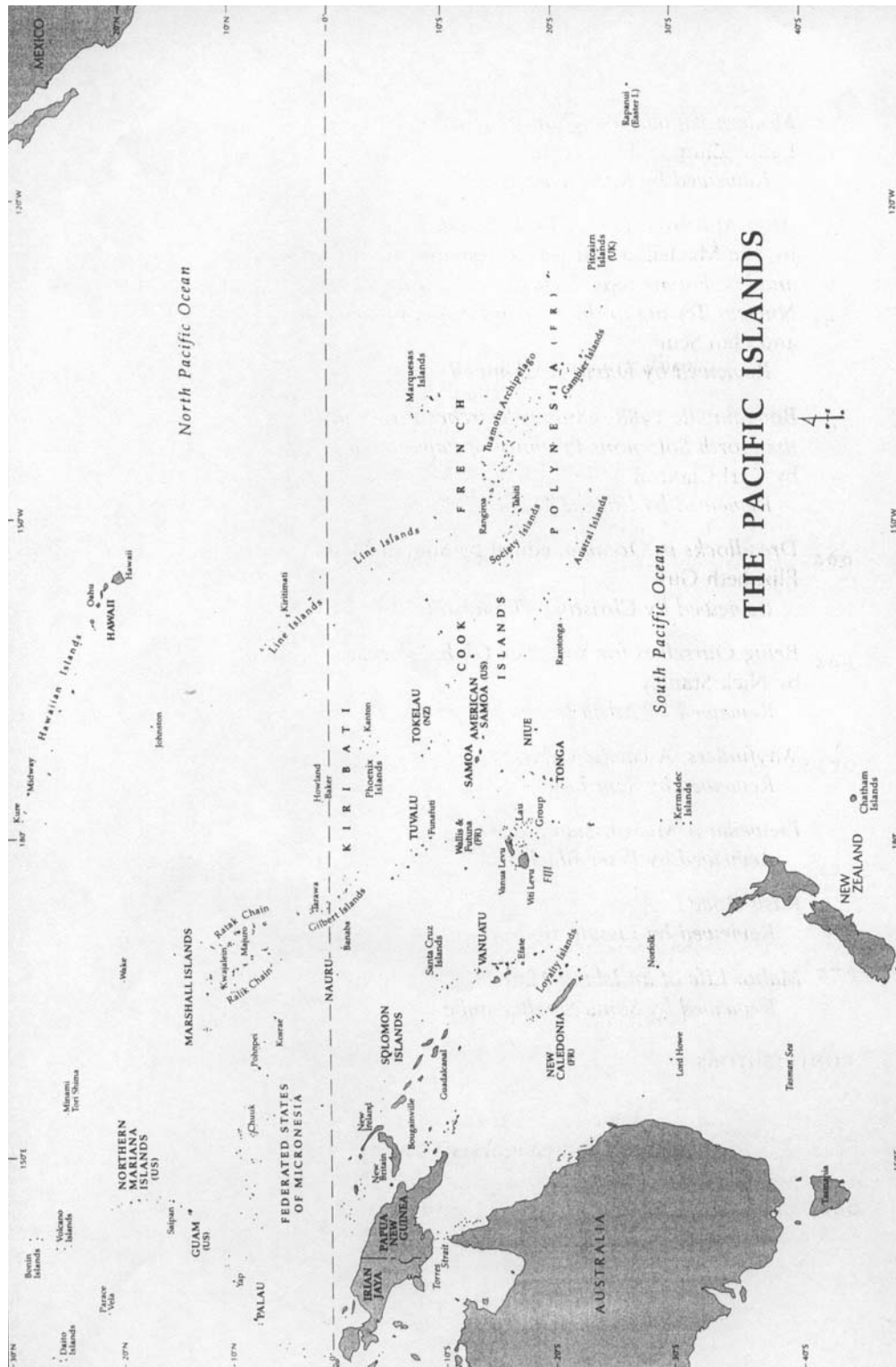
Pacific Island Report, East-West Centre, Hawaii,  
*<http://pidp.eastwestcenter.org/pireport/text.htm>*

World Trade Organisation, Regionalism Gateway,  
*[http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm)*

## **Appendices**

## Appendix One

### THE CONTEMPORARY PACIFIC REGION



Source: Keesing, 1989.

## Appendix Two

### THE EUROPEAN UNION

#### Member States and Administrative Regions

as at 1 May 2004.



Source: Europa website: [http://europa.eu.int/abc/maps/index\\_en.htm](http://europa.eu.int/abc/maps/index_en.htm)

## Appendix Three

### The Six Regions of the African, Caribbean and Pacific States for Negotiation of Regional Economic Partnership Agreements with the European Union



Source: Allen, 2002, p. 1.

## Appendix Four:

### KEY INDICATORS FOR PACIFIC ISLAND COUNTRIES

	<i>Population (2000)</i>	<i>Land Area (km<sup>2</sup>)</i>	<i>Population Density (2000)</i>	<i>EEZ (km<sup>2</sup>)</i>	<i>Life Expectancy (2000)</i>	<i>UNHDI Rank (2001)</i>
Cook Islands	21,000	240	88	1,830	71	0.822
Federated States of Micronesia	118,000	702	6	2,131	68	0.569
Fiji	812,000	18,272	44	1,260	69	0.667
French Polynesia	235,000	3,265	72	-	73	-
Kiribati	91,000	690	132	3,600	62	0.515
Nauru	12,000	21	571	320	59	0.663
New Caledonia	213,000	19,103	11	-	73	-
Niue	2,000	259	8	390	-	0.774
North Marianas	70,000	477	68	-	-	-
Palau	20,000	458	23	601	70	0.861
Papua New Guinea	5,200,000	463,000	11	3,120	59	0.314
Repblic of Marshall Islands	50,000	181	36	2,131	65	0.563
Samoa	170,000	2,935	58	120	69	0.590
Solomon Islands	447,000	28,530	16	1,630	-	0.371
Tokelau	1,000	10	100	-	-	-
Tonga	100,000	699	143	700	71	0.647
Tuvalu	11,000	26	423	757	64	0.583
Vanuatu	197,000	11,880	17	680	-	0.425
Wallis & Futuna	20,000	274	14	-	-	-

Sources: Commission of the European Communities, 2002, p. 8; Hughes, 2003, p. 4 & p. 6;  
United States Central Intelligence Agency, 2003

## Appendix Five:

### TIMETABLE OF TRADE NEGOTIATIONS FOR EU-ACP WIDE ECONOMIC PARTNERSHIP AGREEMENTS AND PACIFIC ISLAND COUNTRIES TRADE AGREEMENTS

<i>Date</i>	<i>EU-ACP Negotiations</i>	<i>Pacific Trade Negotiations</i>	<i>EU-ACP Trade Regime</i>
Spring 2000	The EU requests and receives, in 2001, derogation from other WTO members enabling it to maintain Lomé trade preferences until 2008.	1998: FEMM commissioned research into options for free trade among FICs.	<p><i>2001: “Everything But Arms Initiative” allows duty-free and quota-free access for all products, except for weapons, from all LDCs to the EU market. Affects ACP LDCs.</i></p> <p>Maintenance with the 79 ACP countries, except South Africa, of non-reciprocal tariff preferences in force at present, i.e. the Lomé regime for all ACP countries.</p> <p>Among FICs, SPARTECA preferences continue with Australia and New Zealand until PACER mechanisms triggered, 2011.</p> <p>Progressive liberalisation of commodities covered by Commodity Protocols: sugar, rice, bananas.</p>
June 2001		1999: Draft negotiating text completed for a FIC only FTA.	
August 2001		<p>FEMM Ministers accept most of draft proposal at annual FEMM Ministerial. PACER agreement adopted to include Australian and New Zealand trade interests within Pacific trade architecture.</p> <p>PICTA and PACER agreements completed at Nauru PIF Meeting.</p>	
September 2002	End of preparatory phase of negotiations.	October 2002: PACER agreement ratified.	
September 2002 – September 2003	All ACP – EU phase of negotiations. Agreement of negotiation mandates and guidelines for the conduct of region-to-region negotiations completed.	April 2003: PICTA ratified, FIC to make regular reductions in trade and tariff barriers.	
September 2003 – 31 December 2007	The EU negotiates EPAs with ACP countries, in the form of regional groupings. As yet no country by country alternative trade		



	arrangements were under negotiation.		
2004	The EU and ACP countries study all possible alternatives for non-LDC countries which decide that they are not able to sign FTAs.  The EU revises its GSP.		
2006  2007	The EU and the ACP countries analyse prospective agreements “to ensure that the timetable envisaged permits the adequate preparation of negotiations.”	Beginning of liberalisation for excepted products on PICTA “negative list”.	
1 January 2008  2010  2011  2012  2016	Enforcement of new EPAs	Forum review of PICTA.  Full liberalisation for trade in goods among MDC FICs, except for LDC island states and Compact states.  Negotiations for an FTA between Australia, New Zealand and FICs scheduled to begin, under PACER.  Vulnerable island states to complete liberalisation.  Tariffs for negative list products reach zero.	End of the global ‘all-ACP’ Lomé regime. ACP signatories of EPAs progressively open their markets to EU products. LDCs which have chosen not to conclude EPAs retain their non-reciprocal tariff preferences. Non-LDCs which have chosen not to conclude EPA’s benefit from a new regime (yet to be defined).
From 2018-2020		Article XXIV compliant FIC FTA under PICTA enforced; negotiation and implementation of PACER provisions continue.	Enforcement of FTAs between the EU and ACP signatories of EPAs.

Sources: European Centre for Development Policy Management, 2001, Cotonou InfoKit No. 14 & No. 15; Pacific Islands Forum Secretariat, 2001; Pacific Island Forum Secretariat, 2001.



Niue		✓		✓		✓	SIS PIF NZFA
Palau	✓	✓		✓			Compact PIF
Papua New Guinea	✓	✓			✓	✓	MSG PIF SPARTECA
Pitcairn Island	—	—	—	—	—	—	OCT
Samoa	✓	✓	✓	✓	○	✓	PIF SPARTECA
Solomon Islands	✓	✓	✓	✓	✓	✓	MSG PIF SPARTECA
Tokelau	—	—	—	—	—	—	NZSAT
Tonga	✓	✓		✓	○	✓	PIF SPARTECA
Tuvalu		✓	✓	✓		✓	SIS PIF
Vanuatu	✓	✓	✓	✓	○	✓	MSG PIF SPARTECA
Wallis & Futuna	—	—	—	—	—	—	OCT
<i>Totals</i> 24	10	14	5	12	3 (5)	11	

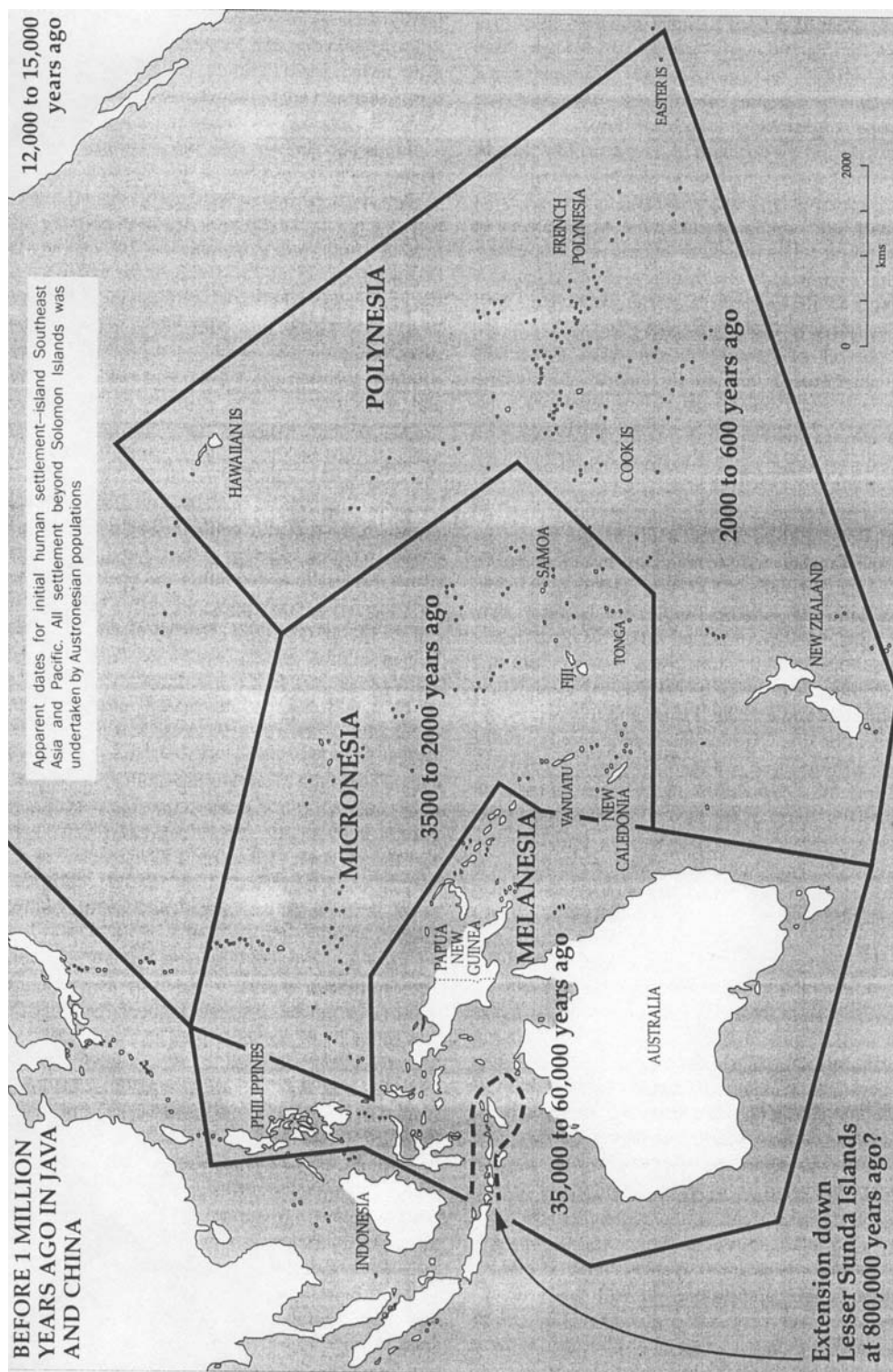
Based on Schiff, 2002, p. 25-26.

### Key

✓	Member/Associate
○	Observer
Compact	US Compact of Association Island state
MSG	Melanesian Spearhead Group
NZFA	Island in autonomous Free Association with New Zealand
NZSAT	New Zealand Self-Administering Territory
Non-SPC	Non-member of the South Pacific Community (NB. Unless specified, all other territories are SPC members)
—	Not applicable
OCT	Overseas Country and Territory
PIF	Pacific Islands Forum
SIS	Small Islands State Summit
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement

## Appendix Seven

### CULTURAL SUB REGIONS OF THE PACIFIC ILLUSTRATING MICRONESIA, MELANESIA AND POLYNESIA (Including approximate date of settlement)



Source: Lal and Fortune, 2001, p. 56.

## Appendix Eight

### RATIFICATION STATUS FOR COUNTRIES COVERED BY PICTA AND PACER

	<b>PICTA</b> (entered into force, 13 April 2003)		<b>PACER</b> (entered into force, 3 October 2002)	
<i>Country</i>	<i>Date Signed</i>	<i>Date Ratified</i>	<i>Date Signed</i>	<i>Date Ratified</i>
Cook Islands	18 August 2001	28 August 2001	18 August 2001	28 August 2001
Fiji	18 August 2001	16 October 2001	18 August 2001	15 October 2001
FSM				
Kiribati	18 August 2001	4 June 2003	18 August 2001	4 June 2003
Nauru	18 August 2001	14 March 2003	18 August 2001	14 March 2003
Niue	18 August 2001	26 February 2003	18 August 2001	26 February 2003
Palau			18 August 2001	
PNG	5 March 2002	10 August 2003	5 March 2002	10 August 2003
RMI			18 August 2001	
Samoa	18 August 2001	10 October 2001	18 August 2001	10 October 2001
Solomon Islands	6 August 2002	5 June 2003	6 August 2002	5 June 2003
Tonga	18 August 2001	27 December 2001	18 August 2001	27 December 2001
Tuvalu	18 August 2001		18 August 2001	
Vanuatu	18 August 2001		18 August 2001	
Australia	na	na	18 August 2001	3 July 2002
New Zealand	na	na	18 August 2001	21 November 2001

Source: Pacific Islands Forum Secretariat, 2003, p. 12; Inman and ANZ Banking Group, 2003, p.

## Appendix Nine

### TABLES ILLUSTRATING THE PROFILE OF THE EU-PACIFIC TRADE RELATIONSHIP Import and Export Patterns and Products

<b>A. Comparison of Imports and Export Patterns in Selected ACP Regions</b>					
<i>ACP regions</i>	<i>Imports</i>			<i>Exports</i>	
	EU	ROW	Intra-region	EU	ROW
CARICOM	18%	80%	2%	24%	74%
CEMAC	71%	25%	3%	30%	69%
EAC	42%	52%	7%	35%	67%
<b>PACP</b>	<b>5%</b>	<b>93%</b>	<b>3%</b>	<b>19%</b>	<b>77%</b>

Sources: Szepesi, 2003, p. 24; McQueen, 1999; Netherlands Economic Institute (NEI), 1998.

<b>B. Share of Exports to and Imports from the EU for PACP/FICs as a percentage of Total Exports/Imports</b>		
	<i>Exports</i>	<i>Imports</i>
Cook Islands (2001)	0.33	0.92
Federated States of Micronesia (2000)	Na	>0.01
Fiji (2001)	1.82	18.31
Kiribati (1999)	0.28	5.91
Nauru	Na	Na
Niue (1998)	0.2	Na
Palau (2000)	0.62	Na
Papua New Guinea (2001)	1.99	10.2
Republic of Marshall Islands (2000)	>0.1	Na
Samoa (2001)	4.2	4.10
Tonga (2000)	0.70	1.45
Tuvalu (1999)	1.51	na
Vanuatu (2001)	5.32	8.71

Source: Roza and Szepesi, 2003, p. 2.

<b>C. Exports to EU of Eight Original PACP States (Percentage shares by country, 2000)</b>	
Fiji	29.05%
Kiribati	0.07%
Vanuatu	1.50%
Tuvalu	0.00%
Tonga	0.02%
Solomon Islands	2.81%
Samoa	0.68%
Papua New Guinea	65.86%

Source: Scollay, 2002, p. 29.

<b>D. Imports from EU of Eight Original PACP States</b> (Percentage shares by country, 2000)	
Fiji	36.26%
Kiribati	0.15%
Vanuatu	10.43%
Tuvalu	0.20%
Tonga	0.51%
Solomon Islands	3.58%
Samoa	3.89%
Papua New Guinea	44.97%

Data from six new PACP states were unavailable. They however have negligible trade relations with the EU, as three are US Compact states (RMI, FSM and Palau) and the Cook Islands, Niue and Nauru do not have a history of cooperation with European Community.

Source: Scollay, 2002, p. 25.

<b>E. Principal Exports to the European Union of Six PACP States</b> (Percentage of total exports to EU – 2000)					
<i>Fiji</i>		<i>Papua New Guinea</i>		<i>Samoa</i>	
Sugar	92.3%	Palm Oil	31.0%	Copra	80.6%
Plant Products	1.8%	Coffee	26.7%	Kava	6.7%
Garments	0.8%	Copper Ores and Concentrates	14.6%	Garments	5.6%
Fish, frozen or fresh	0.7%	Coconut Oil	11.6%	Beer	0.6%
Canned Fish	0.7%	Copra	6.9%		
		Canned Fish	1.5%		
<i>Solomon Islands</i>		<i>Tonga</i>		<i>Vanuatu</i>	
Canned Fish	62.3%	Vanilla	24.7%	Copra	61.2%
Coconut Oil	25.5%	Marine Products	11.5%	Coconut Oil	9.2%
Copra	3.0%	Coffee	1.8%	Kava	7.6%
Cocoa	1.7%	Fruit Juices	1.0%	Cocoa	7.0%
Timber	1.5%			Marine Products	1.4%

Source: Scollay, 2002, p. 29.

<b>F. A Representative Sample of Main Imports from the EU to Three Original PACP States – 2000</b> <b>(Percentage of total imports of each PACP state)</b>					
<i>Fiji</i>		<i>Papua New Guinea</i>		<i>Solomon Islands</i>	
Electrical machinery and Apparatus	21.5%	Bulldozers or Heavy Machinery	13.2%	Parts, Accessories for Machines and Appliances	12.0%
Machinery for Working Rubber and Plastic	15.4%	Metal Structures	7.8%	Electrical machinery and Apparatus	10.0%
Machine Parts	5.4%	Prepared or Preserved Meat	7.0%	Special Purpose Supplies and Services	7.9%
Soya Bean Oil and its Fractions	3.4%	Electrical Equipment for Line Telephony	4.1%	Hand Tools and Components for Hand Tools	5.6%
Automatic Data Processing	3.1%	Instruments and Appliances	3.5%	Medicaments	5.0%
Machinery and Units	3.1%	Optical Fibres	2.4%	Sugar	2.7%
Machine and Mechanical Appliances	3.1%	Transmission Shafts	2.0%	Pickling Preparations for Metal Surfaces, Fluxes	2.6%
Medicaments	2.6%	Dishwashing Machines	1.8%		

Source: Scollay, 2002, p. 24.



